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What the Business Man expects
FROM THE ACCOUNTANT

THE SOCIETY OF INCORPORATED ACCOUNTANTS

NOVEMBER 1950



ONE & SIXPENCE

The Society of Incorporated Accountants and Auditors

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Professional Notes

"Economic Battledress for the Cold War"

THE ECONOMIC SPECIFIC RECOMMENDED BY THE ASSOCIATION OF BRITISH CHAMBERS OF COMMERCE, in a report recently published under the vivid title *Economic Battledress for the Cold War*, has been recommended many times before. But the prescription bears repetition, especially when it is put, as the Association puts it, in the setting provided by rearmament. The Association urges that the emphasis must be upon increased productivity and upon Government economies. If some £200 million can be taken annually for rearmament from the "normal" increase of about £500 million in the national product, and if £250 million is pared from Government expenditure—which the Association considers practicable—rearmament on the scale planned will neither deprive industry of essential capital nor entail a decline in personal consumption.

A reduction in industrial capital formation, the Association points out, would be particularly dangerous, since it would impair our productive equipment, which must be built up to match the long drawn-out emergency with which we are faced; "make-do-and-mend" is appropriate only to a short-lived critical situation. The Association does, however, envisage some possible cuts in capital expenditure on civic amenities and on non-strategic colonial investments.

If inflation is not to be stimulated, a decline in goods and services available for personal consumption must be avoided, except in so far as savings can be promoted

—this means, it is emphasised, that savings should be encouraged, not attacked through the fiscal system.

The Association thinks the required spurt in productivity would come mainly from better management (particular stress is placed on raising the status of the foreman); by gearing wages to efficiency; by better utilisation of labour supplies; and by more intensive use of an extended capital equipment.

Reductions in Government expenditure are obtainable through economies in administration (now costing £560 million) and through savings, of which the Association cites a number of possible examples, in the social services.

This pointed memorandum, which is signed by Mr. Frank Bower, C.B.E., the chairman of the Association's Finance and Taxation Committee, concludes by suggesting that there should be, alongside the Royal Commission on Taxation, a wider inquiry into the incidence of all taxation, to ascertain the tax methods which least impede productive effort. The Royal Commission—whose survey is limited, within the stipulation that revenue should be maintained, to the taxation of incomes and profits—would still have a useful job of work to do.

Some Criticisms of the Companies Act

Dr. John Charlesworth, Recorder of Scarborough, critically examined the Companies Act of 1948 in a paper read at the recent Annual Conference of the Association of Certified and Corporate Accountants.

He expressed the view that the doctrine of *ultra vires* in relation to companies should have been abolished, for the reason that there appeared to be no reason for a legal entity not having all the powers of a legal person. Mr. Charlesworth contended that if the principle of *ultra vires* were no longer applicable there would be no need for the memorandum, since the objects could be quite shortly set out in the articles, with resultant facility in effecting alterations.

The auditor's report, he continued, required by the Act, was such that the layman might infer that the auditor,

while certifying that the document presented a true and fair view, was protecting himself against the possibility of this not being so. He argued that the obligations contained in paragraphs 1, 2 and 3 (1) of the Ninth Schedule that the auditor should report specifically on the matters included in these paragraphs were unnecessary; whether or not the auditor was satisfied on these points was already implicit in that part of his certificate required by paragraph 3 (2).

As it was merely a paper entry, Mr. Charlesworth regarded as unnecessary the setting-up of a capital redemption reserve fund in connection with preference shares redeemed out of profit. We hardly feel that the accountancy profession will readily accept this particular point of his paper.

Having expressed doubts whether the requirements of the Act regarding the age limit of directors serve any real purpose, Mr. Charlesworth said that a firm of auditors had no legal existence separate from its partners. The important consideration at once emerges that, where there is a change during the year in the partners of the firm, it seems that Section 159 (2) does not operate for the automatic reappointment of the firm as newly constituted. He thought it unfortunate that many of the provisions of the Act had been made applicable to exempt private companies. He particularly referred to Section 196, which made it incumbent upon auditors to ascertain from directors of such companies the money value of benefits received by them in order to present to them, in their capacity as shareholders, the amount of their emoluments. Also, he felt that the Act did not meet the problems which often beset a person who was actuated to take shares in a private company in order to obtain employment and who might later be disillusioned or dismissed.

The paper closed with a suggestion that it is no improvement upon the previous position that Section 325 should provide that, in cases where execution is not completed by the creditor before the commencement of a winding-up, the Court may set aside the rights conferred on the liquidator by the first part of the Section, thus making the position of the liquidator uncertain.

The Accounting Vista

In an address to the Country Conference of the Chartered Institute of Secretaries held in September last, Sir Frederick Alban, C.B.E., the immediate past-President of the Society of Incorporated Accountants, reviewed the advances made in accounting techniques over the past hundred years or so. In dealing with current accounting problems, accentuated as they are by the high taxation level and the instability of the accounting unit of measurement, Sir Frederick pointed out that the profession was alive to the difficulties and to the complaints of management and economists on the effects of historical cost depreciation. The problems were under continuous examination both here and in America.

Sir Frederick gave voice to a thought which has disturbed many of us when he said: "Accountants stepping back to admire the products of their skill may well think, on reflection, that most of the people for whom, in accordance with the desire of Parliament, the elaborate accounting service is being rendered do not understand what they are getting." Sometimes it does indeed appear that there is poverty amid plenty—poverty of information comprehensible to the shareholder, plenty for the expert. Thus the shareholder is more than ever reliant on the financial Press. And however excellently financial journalists comment upon published accounts, commentary is a poor substitute for first-hand understanding by the shareholder. This state of affairs Sir Frederick ascribed in some measure to the element of rigidity which legislative interference in matters of accounts seems inevitably to introduce.

True, the accountant cannot interpret the law to his own liking, but Sir Frederick's remarks lead one to wonder whether the spirit of the law has not been entirely lost to view in the observance of the letter. If intelligibility to the person for whom it is designed is any measure of the merit of a document, then is it not doubtful whether the accounting provisions of the Companies Act in their practical outcome represent a very notable advance as far as shareholders are concerned?

Sir Frederick said that he welcomed the movement towards simplicity of design and terminology in the practice

of some American accountants. If there were any real movement of this kind in Britain, we should, for our part, extend an even warmer welcome to it—and we feel that Sir Frederick would be entirely at one with us in this.

Perhaps one solution would be to entitle shareholders to demand detailed accounts, whilst not insisting on their being circulated to them, and to require that the accounts circulated to the shareholders should set out clearly certain information considered essential for the shareholders. To lay down what such essential information should comprise would be a difficult but surely not impossible task.

Company Law in New Zealand

The Minister of Industries and Commerce in New Zealand, the Hon. C. M. Bowden (himself a Fellow of the New Zealand Society of Accountants) recently announced the formation of a committee to advise the law draftsman on desirable amendments to the company law of the Dominion.

In New Zealand the legislation concerning joint stock companies has followed the pattern of the British legislation fairly closely and fairly consistently. The British Act of 1929 was followed by an Act in 1933, and now it seems likely that the new British Act of 1948 may be followed by a new Act in New Zealand about 1952.

The committee, which is under the chairmanship of the law draftsman, Mr. H. D. C. Adams, C.M.G., LL.B., comprises representatives of the Law Society, the Stock Exchange, the Associated Chambers of Commerce, the New Zealand Society of Accountants, the New Zealand Branch of the Chartered Institute of Secretaries and the New Zealand Institute of Secretaries.

Representing the New Zealand Society of Accountants is Mr. D. A. F. Crombie, C.A.(EDIN.), F.P.A.N.Z. and representing the secretarial Institutes is Mr. W. G. Rodger, F.P.A.N.Z., F.C.I.S.

It is understood that the committee is attempting an over-all survey, Section by Section, of the New Zealand Act, with reference to and comparison with overseas legislation and recommendations, including the Companies Act, 1948, the Cohen Committee Report, the Report of the Malan Committee in South Africa and the recent legislation

in Canada and in Australia, particularly the Victorian Companies Act of 1938.

According to information at present available the authorities have apparently decided to prepare a new Bill on the basis of the committee's recommendations and to allow the Bill to lie on the table for some time after its introduction, so as to permit, before the measure is considered by the House, a thorough review of it by those interested in company law.

Simplified Planning Finance

The Chartered Auctioneers' and Estate Agents' Institute has joined those public-spirited professional bodies which have studied the Town and Country Planning Act, 1947, and made known their conclusions. In a memorandum published last month the Institute expresses grave concern about the Act's financial provisions. It points out that these provisions are disliked by almost everyone connected with the land, whether landowner, tenant, vendor, purchaser, architect, builder or valuer.

The Institute is drastic in its proposals. Since the main financial structure of the Act has so little support, results in a large amount of time and manpower, and is costly to the community, the Institute advocates the entire repeal of Parts V, VI and VII of the Act. This would mean that claims on the Central Fund would be cancelled, and that development charges would be abolished.

No serious criticism is made against the purely planning provisions of the Act, and the Institute's proposals really amount to a system of controlled development divorced from any question of financial compensation. It is accepted, the Institute says, that the owner of land must comply with certain requirements, dictated by modern standards of health and sanitation, without compensation. Indeed, the basis of the memorandum is the view that the ownership of land does not carry with it an unqualified right of user, and that restrictions upon the use of land in the general interest have never given the subject a right to compensation at common law.

As a substitute for compensation, the Chartered Auctioneers' and Estate Agents' Institute wants a landowner,

where planning restrictions have deprived him of the reasonable beneficial use of his land, to be empowered to serve a purchase notice on the appropriate local authority, compelling it to purchase his property at market value. There comes a time when it ceases to be reasonable for an owner to be called upon to accept limitations on his rights without some remedy. The Institute contends that he should then serve a purchase notice instead of a claim for compensation. The proposal has the merit of simplicity, and in the Institute's view the ultimate cost would be far less than the £300,000,000 to be paid in compensation for loss of development rights.

The memorandum containing these far-reaching suggestions for amending the Act can be obtained from the Secretary of the Chartered Auctioneers' and Estate Agents' Institute at 29, Lincoln's Inn Fields, London, W.C.2.

Central Land Board

The proposals of the Chartered Auctioneers are published at the same time as the Central Land Board's second annual report. The Board states that the total number of claims for depreciation of land values amounted to 935,000 on June 30, 1949, the final date for their submission. The total amount collected in respect of development charges, including amounts set off against claims for compensation, has now risen to over £5 million.

To explain the present procedure for the assessment and collection of development charges, the Central Land Board has recently issued a revised explanatory pamphlet (Form D.I.A.) designed particularly for landowners and other developers. Although not as detailed as the Board's Practice Notes, this new leaflet provides a useful summary of procedure, and also sets out the common cases in which no development charge is payable.

End of War-time Legislation on Debtors

We announced in our issue of last July (page 231) that an Order in Council was expected terminating the emergency for the purposes of the Courts (Emergency Powers) Act of 1943. With the coming to an end of that Act, the Liabilities (War-time Adjustment) Acts,

1941 to 1944, which depend upon it, are automatically terminated.

The Order in Council was submitted to H.M. the King last month, so that the Acts are now at an end. In consequence, creditors may proceed against debtors without the leave of the Courts which has been necessary since 1939. As our contemporary, the *Solicitors' Journal*, puts it: "The public has not yet grasped the full meaning of this apparently highly technical occasion, but when landlords begin to distrain again and the vans of hire-purchase companies again call for the return of goods, no doubt the degree to which we have reverted to pre-war conditions will begin to be appreciated."

Accountants are more particularly concerned in the ending of the liabilities adjustment procedure, under which schemes of arrangement between a debtor and his creditors, drawn up with the assistance of a Liabilities Adjustment Officer—who was frequently a practising accountant—replaced the normal bankruptcy proceedings. Perhaps when the number of bankruptcies increases, as without doubt it shortly will, "the degree to which we have reverted to pre-war conditions" will be even more fully appreciated.

Accountancy and Management

A sub-committee of the Incorporated Accountants' Research Committee has been set up to deal with management problems. The sub-committee, whose members are mainly in commerce and industry, is studying, as one of the first subjects among a number, management's requirements from the finance and accounting functions. The subject is a wide one and the sub-committee would welcome the help of other members of the Society engaged in commerce and industry: the Assistant Secretary of the Society will be pleased to put them in touch with the sub-committee.

This sub-committee is one of three set up following a recent reorganisation of the Incorporated Accountants' Research Committee. One of the other two sub-committees conducts research into accounting principles, practice and techniques and the other into taxation problems. There is now a main executive committee co-ordinating the

work of the sub-committees and having general functions connected with the research.

Sixth International Congress on Accounting

The sponsoring bodies announce that the Sixth International Congress on Accounting will be held in the halls of the Royal Horticultural Society, Westminster, London, S.W.1, in the week commencing June 16, 1952. Further particulars will be issued in due course.

The following professional organisations will be hosts :

The Institute of Chartered Accountants in England and Wales.

The Society of Incorporated Accountants and Auditors.

The Society of Accountants in Edinburgh.

The Institute of Accountants and Actuaries in Glasgow.

The Society of Accountants in Aberdeen.

The Association of Certified and Corporate Accountants.

The Institute of Chartered Accountants in Ireland.

The Institute of Municipal Treasurers and Accountants.

The Institute of Cost and Works Accountants.

Distribution of German Enemy Property

An Order in Council has been made providing for the collection and realisation of German enemy property and for the appointment of an Administrator who will perform these functions.

Everybody who holds, controls or manages German Enemy Property is required to provide the Administrator with particulars of it within three months from the date when the order comes into operation or the property becomes "German enemy property" as that term is defined, whichever is the later date, unless particulars have already been furnished to a Custodian. The order came into operation on October 23. A similar obligation is imposed on any company incorporated in the United Kingdom or having a share transfer or share registration office in the United Kingdom, in regard to securities issued by the company which are, or become, German enemy property. The Adminis-

trator may, by notice, require production of books, documents or information.

The order does not deal with the distribution of the proceeds of the property—a question to be dealt with by a subsequent order, which will be framed in the light of recommendations made by an advisory committee which is now sitting. Until this proposed order is made, would-be claimants who hold German enemy debts should not take any action.

The order is entitled the Distribution of Enemy Property (No. 1) Order, 1950 (S.I. 1950, No. 1642) and is made under the Distribution of Germany Enemy Property Act, 1949.

Amplified Inland Revenue Statistics

In its last annual report, published some days ago, the Inland Revenue not only gives the usual statistics for the year covered (1948-49), but celebrates its centenary with some illuminating figures and tables covering the hundred years, gives certain additional statistical details of income tax, personal incomes and Estate Duty for four recent years, and promises some further innovations in forthcoming reports.

From the wealth of statistical information given in the 138 tables and 11 charts, apart from the text, we may, as an almost random selection, compare the yield of all Inland Revenue duties in 1848-49 (£29.7 million) with that in 1948-49 (£2,055.0 million), pausing to notice that the first emphatic expansion occurred with World War I (1908-09, £96.2 million; 1918-19, £623.7 million); observe that the average effective rate of income tax levied on each pound of actual income was estimated at 36.5d. in 1948-49; note that 63,024 persons, with an aggregate investment income of £189 million, were assessed to the Special Contribution and 57,644 companies to Profits Tax, in the sum of £257.8 million on assessed profits of £1,979.9 million; and wonder why the margin of the official valuation over the figures brought in for death duties by the accounting parties has steadily increased from 4.84 per cent. in 1939-40 to 11.06 per cent. in 1948-49.

Among other information, the new tables give us, for 38 trading groups, an analysis of trading profits for the year of assessment 1948-49 (profits of 1947), with comparative figures for each of the

three years of assessment from 1937 to 1940; an analysis, by the same groups, of P.A.Y.E. deducted and the total pay from which it was deducted; a classification of personal incomes by range of income and family circumstances; and a classification, by types of property, of estates liable to Estate Duty, within different ranges of net capital value.

From the table for one "trading group," we find that the net income of individuals and firms for professional services was £74.2 million in 1937-38 and £131.3 million in 1948-49. Total net income under Schedule D was £971.6 million and £2,224.5 million in the two years. The comparison between the rise of 77 per cent. in professional incomes and that of 129 per cent. in total incomes may not produce any exact conclusions—but it certainly gives one to think!

Of the tables promised for the future, the most useful will probably be those showing, by trade groups, the proportions of total receipts disbursed for materials, wages and salaries, other costs, and depreciation, and the division of net profits between tax, dividends and sums retained in the business.

The report is Command 8052, obtainable at 3s. 6d. net from His Majesty's Stationery Office.

SHORTER NOTES

The New Paper Currency

In a note on page 407 we protest against the demand of the Inland Revenue for vouchers to support claims for entertainment expenses. It is reported that there is a flourishing black market in receipted bills for restaurant meals and that waiters, who have been handed such bills as "tips," can sell them to other customers at a price regulated by the rate of tax to which the customers are liable. If the report is true, here is one more reason why the Inland Revenue demand is to be deplored.

The "Two-Book System"

"Many farmers are much too busy to go in for these accounting refinements. I knew an old farmer who used to keep his accounts on what he called the two-book system. He had one book on the left of his desk for bills unpaid and one on the right for receipts, and he judged whether he was doing well or not by the number of bills he succeeded in transferring from left to right."—From a broadcast talk, "Are British Farmers Too Well Off?" by Professor Maurice Kendall.

ACCOUNTANCY

FORMERLY THE INCORPORATED ACCOUNTANTS' JOURNAL ESTABLISHED 1889

The Annual Subscription to ACCOUNTANCY is 17s. 6d., which includes postage to all parts of the world. The price of a single copy is 1s. 6d., postage extra. All communications to be addressed to the Editor, Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2.

A Chance for the New Chancellor

THE OUTGOING CHANCELLOR OF THE Exchequer—whom all will wish a speedy return to full health and full public life—has undoubtedly done much towards restoring this country to financial balance. He kept in front of himself, often against the opposition of his political supporters, standards of responsibility which, for a less disciplined person, would long since have been relaxed—and relaxed to the detriment of the nation. There are features of Sir Stafford Cripps's three years at the Treasury with which many have disagreed. His Special Contribution, his heavy tax treatment of profits, his failure to re-cast the income tax so as to reduce its disincentive effects, his unwillingness to frame policy with due regard to the place of private savings—these are among them. Yet, even so, it remains true that Sir Stafford's was a regime of relative orthodoxy, at a time when orthodoxy was imperative.

Thus the new Chancellor is bequeathed a particularly burdensome inheritance. There will be strong pressure upon him from within his own Party—even from within the Cabinet—to retreat from the regimen imposed by Sir Stafford. Among examples of innovations which might be successfully urged upon Mr. Hugh Gaitskell, a capital levy is perhaps the most obvious. There is strong backing for it in the Labour Party, it might have an electioneering value, and it is doubtful whether Mr. Gaitskell would feel bound by Sir Stafford's "once-and-for-all" pledge, which was associated with his personal miniature levy, the Special Contribution.

But the personal and political terms are not the most significant in the equation. The chief term springs from

the deep-rooted economic difficulties of the country and of the times. Let there be no mistake about it; those difficulties persist and remain deep-rooted.

The danger is an insidious one, because the economy has some of the appearances of stability and progress—perhaps, even, some of their elements—without their basic essentials. Just as a half-truth is often more difficult to disprove than a lie, so the present situation is even more difficult to handle than was the self-evident economic emergency of two and three years ago. For example, on the face of things, the Balance of Payments White Paper for the first half of this year is reassuring. It shows a favourable balance on current account of £52 million, and a surplus in gold and dollars of £78 million. But a more careful reading shows that the favourable balance of £52 million is only £36 million more than we achieved in the first half of 1949 and that this improvement is more than accounted for by an increase in invisible exports amounting to £99 million, of which a large part was the result of a boom in the earnings of British oil companies abroad, somewhat illogically treated as invisible items. The surplus in gold and dollars of £78 million is the amount by which our reserves would have grown in the half-year in the absence of grants and loans from abroad, mainly from the United States under the European Recovery programme (with the aid of which the actual growth was £262 million). But even this comparatively small surplus of £78 million was earned, not by the United Kingdom itself, but by the other countries in the sterling area, for which it acts as inter-

national banker. They had a current surplus of gold and dollars of £118 million, against our deficit of £40 million. If, as in former years, the rest of the sterling area had drawn dollars and gold from the pool in London, instead of piling them up there, the final picture would have been very different.

When it is remembered that sterling was drastically devalued last September, and that the increased earnings of other sterling countries are mainly the result of heavy rearmament buying of materials by the United States at inflated prices, the persistent questions pose themselves again: "What if there is a decline in American activity and imports?" and "Have we any margin against the end of the European Recovery Programme at mid-1952?"

We have concentrated upon our problem of international payments because it is especially liable to be minimised. There is, however, a congeries of internal problems, most of them reacting upon the external one, which are hardly less fundamental, and which also need not be seen by the unwilling observer. The continued inflationary trend; the onerous level of taxation, that drag upon savings and productivity; the exaggerated draft made by Government upon our national resources; the renewed demands for higher wages; the necessity of rearmament. Merely to state the problems is almost to point to the main lines to be followed in tackling them—admittedly not the same thing as solving them, but even an intractable problem should not be simply left to wax more intractable! Those main lines have been indicated by objective commentators time and time again: they are adequately summarised in the most recent contribution, a memorandum of the Association of British Chambers of Commerce, upon which we comment in a note on page 379.

The issue is whether Mr. Hugh Gaitskell, far from being seduced from the ways of financial rectitude, will go further than his eminent predecessor in formulating a positive fiscal and economic policy to grapple with our difficulties.

The former economics don has a chance to show himself as a masterful applied economist: the question is whether he will grasp that chance.

Financial and Accounting Problems of Nationalised Industries*—II

By J. LATHAM, C.B.E., A.C.A.

Accounting Methods

I have given you a short survey of the framework of the accounts of a nationalised industry, but I have said nothing about *methods* of accounting. Here the N.C.B. (and I have no doubt other nationalised industries) have taken decisions which are in sharp contrast to the absolute uniformity of accounting classifications imposed on the organisation. Methods of accounting are left for local decision, and this naturally results in a variety of methods and the use of many different types of machines. I suppose that in the N.C.B., for example, we are using somewhere almost every available kind of accounting machine. We think it is necessary to adopt this policy in order to encourage initiative and resource and to develop and maintain a lively organisation. It does not mean that those concerned in the divisions and areas are left entirely to their own resources and are dependent on what may, in some cases, be a limited knowledge of alternative methods and machines. We have a small national staff of organising accountants who keep in touch with all the latest methods and machines, carry out research into their application to the Board's accounting problems and guide and advise the divisions. In this way, expert guidance and the experience of any division or area is available to all; they all receive the best advice that can be given, and although the decisions rest with the individual, he would obviously find it impossible to continue to disregard guidance if experience proved that his own views were unsound.

What controversial points of interest emerge from this brief examination of accounting arrangements? Would it be generally agreed, for example, that it is sound to leave accounting methods to be settled locally? Experience so far confirms my view that it is sound policy to do so; while progress in some cases is slower than might otherwise be the case, I remain convinced that in the long run the organisation will be healthier and more efficient. There is, of course, bound to be a gradual movement towards uniformity of method, but it will be achieved by persuasion and not by direction, and, after all, this is one of the main aims of large-scale organisation everywhere, and, indeed, of democratic organisation itself.

Are the Board right in organising their accounts generally on an area basis or would economies be possible by larger groupings? This is an interesting subject and cannot be

discussed without an examination of the main accounting procedures. These can perhaps be grouped in the coal industry into:

- (a) Pay roll;
- (b) Stores;
- (c) Purchase accounts;
- (d) Sales accounts;
- (e) Nominal accounts.

When I say that the areas are the main accounting units, this refers to stores accounts, purchase accounts, sales accounts and nominal accounts. Even so, there are exceptions, as in some cases it has been found more effective to decentralise stores accounts to groups within an area, and the development of marketing on a divisional basis, which I mentioned earlier, has naturally led to the grouping of sales accounts divisionally in some cases. Pay rolls are usually dealt with at group offices catering for a number of collieries and not at the area office, although in some small areas the work is centralised. In my view a factor of great (if not overriding) importance in deciding on the size of the accounting units is the service to management which must be provided. This is bound to be a determining factor in the case of the pay roll, stores accounts, purchase accounts and sales accounts. All too often I have seen, for example, stores accounting systems based on large concentrations with efficient machines where most impressive records were produced which were in fact of little or no use, mainly because they were always out of date.

I believe that generally the area accounting organisations provide economic work loads and that larger groupings of accounts would not bring economies which would offset the weakening of contacts with local managements. I except sales accounts, which are already being organised in most cases in large divisional groupings and are particularly suitable for combining with sales statistics in punched-card installations.

Depreciation

Before leaving accounts I would like to refer briefly to provisions for the depreciation of fixed assets.

B.E.A. have provided depreciation by the "straight-line" method, writing off cost (as regards transferred assets, cost to B.E.A.s predecessors) by equal annual instalments over the estimated life of the asset. B.E.A. stated in the report that for the year to March 31, 1949, the amount written off the "intangible assets" which resulted from the opening entries already mentioned had been calculated at

* A paper given at the Incorporated Accountants' Course, Balliol College, Oxford, on September 18, 1950. The first part appeared in our October issue, pages 357-361.

one-ninetieth of the gross amount, 90 years being the period prescribed for redemption of British Electricity Stock. The report to March 31, 1949, also stated that B.E.A. are "charging their revenues with full provision for depreciation of assets, computed by reference to historical cost, and in their view no other basis would be appropriate. Any further provision towards higher costs of replacement must, therefore, be derived from surplus."

B.T.C. have divided their fixed assets into two major categories. The first consists of "wasting assets which are separate units and which are eventually scrapped," for example, rolling stock, vehicles, ships and plant generally; these are depreciated on the "straight-line" basis. B.T.C. stated in the 1948 report that "as and when earnings are available for the purpose it is intended to make further allocations out of profits year by year to a replacement reserve towards meeting the increased cost of replacement as compared with the gross book values upon which the depreciation provision is computed." The second category of fixed assets consists of "assets which are usually reviewed piece by piece and are often reconstructed or modernised rather than scrapped as a whole," for example, buildings, permanent way, tunnels, roads, docks and canals. In these cases repairs and partial and complete renewals are charged to revenue as incurred; only expenditure on additional assets and the improvement of existing assets is charged to capital. B.T.C. state that the credit of £165 million (already mentioned) in "assets displacement account," which has been deducted from the value of the buildings, permanent way, etc., will be "diminished concurrently, and by the same amount, as the book value of assets outside the depreciation scheme is diminished by reason of displacement of capital assets, where the displacement represents a contraction of the physical transport apparatus."

N.C.B., not yet aware of the cost of many of their fixed assets, are making provisional charges for depreciation and have deferred the determination of their depreciation policy until more information is available. The provisional charges have been based on cost (actual or estimated) and not on replacement values.

IV. COSTS

In dealing with the N.C.B. accounts I explained that one basis of classification of revenue accounts provided the analysis of all transactions according to the purpose of the expenditure and the activity concerned. These figures provide the Board's basic costs of all activities, and standard classifications are provided for every separate activity.

This principle is not, however, applied to the detailed supporting statements required by local managements, who are free within the broad framework laid down to settle the form in which their detailed daily, weekly and monthly costs are prepared.

The operation of these arrangements is simply illustrated by the basic analyses of colliery costs. The standard analysis of costs contains the following headings :

1. Wages :

- (a) Face ;
- (b) Other underground ;
- (c) Surface ;
- (d) Guaranteed wages ;
- (e) Total ;

- 1a. Wages (special funds) ;
2. Holiday pay ;
3. Workmen's coal ;
4. Workmen's houses ;
5. Travelling allowances ;
6. Mining contract work ;
7. Supplementary injuries scheme ;
8. National Insurance ;
9. Roof supports—face ;
10. Roof supports—road ;
11. General stores ;
12. Repairs and renewals ;
13. Power, heat and light ;
14. Surface damage ;
15. Wagon charges ;
16. Salaries ;
17. Rent, wayleaves, etc. ;
18. Rates ;
19. Superannuation ;
20. General expenses ;
21. Overhead expenses ;
22. Depreciation.

The most important item of cost is, of course, wages, and this is supported by another basic analysis related to the main colliery operations and containing the following items ;

Underground Wages :

1. Face ;
2. Transport :
 - (a) Subsidiary roads and airways ;
 - (b) Main roads and airways ;
3. Maintenance :
 - (a) Subsidiary roads and airways ;
 - (b) Main roads and airways ;
4. Development ;
5. Special work ;
6. Other underground labour ;

Surface Wages :

7. Winding and banking ;
8. Traffic ;
9. Coal preparation ;
10. Power ;
11. Maintenance ;
12. Other surface labour.

The only other important cost information which must be provided on a uniform basis is an analysis of stores consumption (stocks and purchases are analysed similarly) under the following 18 classifications :

1. Arches and cambered girders ;
2. Roof bars and props ;
3. Roof girders, straight joists and heavy sections ;
4. Other raw iron and steel ;
5. Mining timber ;
6. Other timber ;
7. Building materials ;
8. Oils and greases ;
9. Explosives ;
10. Conveyor belting ;
11. Wire ropes ;
12. Electric cables ;
13. Other general stores ;
14. Coal face machinery ;
15. Coal face machinery spares ;
16. Other plant and equipment ;
17. Other plant and equipment—spares ;
18. Stationery and office equipment.

In some cases stores are analysed to operations on the same general lines as wages, but this is not at present mandatory.

You will see from these examples that the Board have a picture of the costs of production at every colliery, analysed on a uniform basis. Local managements require much more detailed information, for example, about wages; and this can be developed according to local circumstances. Arrangements for ancillaries (coke ovens, by-product plants, brickworks, etc.) are on similar lines.

The Board's main costing problem so far has been to improve the standard of basic records, which is not perhaps surprising when it is remembered that the most important operations in the industry are carried out underground, sometimes under conditions of considerable difficulty which militate against the niceties of recording. The work of improving the statements of historical cost and seeing that they are presented promptly and effectively must continue, but at the same time it is vital to give attention to the development of costing as a really effective aid to management, and in particular to see whether the techniques of standard costing developed in other industries can be satisfactorily used in or adapted for the coal industry. While there is a feeling among some people in the industry that the technique of standard costing is not appropriate to it, we are convinced of the need for research on the subject. I am confident that, whether on the lines adopted in other industries or on new lines, some kind of standard costing will be introduced. The Board have engaged one of the leading firms of cost consultants to investigate and advise on the problem; they are conducting investigations and their report is awaited with great interest.

I think the technical costing problems of nationalised industries are similar to those of large concerns in private ownership. It is necessary to be constantly on the alert to ensure that the provision of costing information is directly related to cost control, so that costs are provided only if they are of real use, are supplied to the people who can use them for control purposes and are submitted speedily. Probably managements more than accountants are responsible for a great deal of the large quantity of costing information regularly compiled in British industry which can be put to no useful purpose, but I conceive it to be the duty of accountants to be sure that their figures are a means to an end and not an end in themselves.

V. AUDIT

The subject of the audit of nationalised industries is bound to be an unpopular one with bodies of professional accountants, as although the accounts are audited by professional auditors, nationalisation has undoubtedly greatly reduced the number of firms of professional accountants engaged in audit work in most of the industries concerned. While this is, of course, only a sudden and large extension of the trend which has resulted from the development of large-scale organisation in British industry, it is disconcerting to those who lose clients of long standing.

The audit arrangements of the nationalised industries vary greatly. In the case of the N.C.B. a single professional firm has been appointed by the Minister of Fuel and Power; on the other hand the separate legal existence of area boards

for gas and electricity and the Executives acting as agents to the Transport Commission has facilitated the distribution of audits between a number of firms in their cases. Each area board of the B.E.A. has a different firm of professional auditors appointed by the Minister of Fuel and Power. In the case of the B.T.C. the Minister has approved a "scheme of audit" which provides that the Commission's auditor (appointed by the Minister) may rely (subject to certain safeguards) on audits of the executives and departments of the Commission carried out by auditors appointed by the Commission.

There can be no doubt about the need for independent professional audit. The question which gives rise to controversy is the extent to which detailed work should be carried out by the professional auditors themselves or by internal audit staffs.

In this country internal audit has developed rather slowly, even in large concerns, and under private enterprise in Great Britain to-day there are few comprehensive internal audit organisations. Greater progress has been made in America, and this may be due partly to the larger scale on which industry is organised there and partly to the more progressive American attitude towards new developments and possibilities in accounting and auditing.

In my view, the nationalisation of an industry, bringing under review as it did the whole of its accounting and audit arrangements, was bound to give impetus to the development of internal audit. In the coal industry before nationalisation there were few really big concerns, but several of these had developed internal audit and the staffs were taken over by the Board and formed the nucleus of a greatly expanded organisation.

The case for internal audit in a large nationalised concern really rests on the propositions that:

- (a) Much of the detailed work of audit, including the testing and verifying of systems of internal check, can most effectively and economically be carried out by people who concentrate wholly on this work;
- (b) The internal audit work can be usefully combined with the provision of a service to management on matters not usually dealt with by professional auditors.

The Board's internal audit staff numbers about 300 people, including machine operators. Most of this staff are grouped into area audit staffs, with a small number of people at divisional and National Headquarters. They work to a comprehensive programme agreed with, and all their reports are available to, the professional auditors. The progress of the internal audit organisation has been one of the most satisfactory features of the Board's development during the last three years, and the general management increasingly recognise the value of the service they provide. The staff includes some 60 people with professional qualifications, and it is intended that all those occupying senior posts in internal audit should be so qualified.

In addition to the main internal audit staff I have mentioned there is a separate staff working under internal audit direction which consists of people experienced in stores and stores control who are employed solely as stock checkers, continuously visiting collieries, testing the

quantity and condition of the stores held, examining recording systems, etc., and advising on methods of handling and control.

I am satisfied that internal audit of a large-scale nationalised industry enables an efficient service to be provided economically. I may be asked about the effect on the accountancy profession as a whole and the difficulty of maintaining the profession if the arrangements adopted, for example, by the N.C.B., were extensively in use throughout British industry. If the greater part of British industry were nationalised and the subject of intensive internal audit, it may well be that the accountancy profession would have to review its whole basis. We are far from that stage yet, and I believe that no insoluble problems exist. I hope that the senior posts in the internal audit staffs of the nationalised industries will continue to be filled by professionally trained people, and that on the other hand, it may be possible for a number of people undergoing professional training to broaden their experience by working for a period within nationalised industries. This and other ways of co-operation will prove beneficial in developing accountancy and auditing on lines desirable for large-scale industry which may well differ from the arrangements of the past.

It is sometimes said that internal audit cannot be satisfactory because the staffs are not independent. Obviously internal audit staffs cannot have the full independence of the professional auditor, and it is vital that he should continue in office, but in a large nationalised industry it is possible to go far to meet the criticism. In the N.C.B., for example, there is (in addition to the availability to the professional auditors of all internal audit reports) a right of independent report through the internal audit channel, so that the area internal auditor can report direct to the divisional chief internal auditor and the latter to the chief internal auditor at headquarters, who in turn has the right of direct report to the Board. Such rights are rarely used (this applies also to some of the rights of independent professional auditors which are so jealously safeguarded), but their existence ensures the freedom of internal audit and removes the danger of suppression of unwelcome reports.

VI. FINANCIAL CONTROL

I explained earlier some of the main features of nationalised industries, and before dealing with the methods by which financial control must be obtained I should perhaps remind you of the magnitude of most of the concerns and of their monopoly position. Both these features render it particularly desirable and yet perhaps specially difficult to obtain effective financial control; there is also the danger that nationalised industries might be regarded as having a bottomless State purse and that this might lead to some relaxation unless strong controls exist.

Looking first at the control of capital expenditure we should note that very large capital development programmes are being carried out by some of the nationalised industries, for example, B.E.A. are greatly expanding the country's generating capacity, and N.C.B. are in the process of reconstructing the coal industry.

In considering schemes for these and other purposes the nationalised industries are bound to have a rather different approach from that of most concerns under private enter-

prise. In so far as the latter are seeking profits they will disregard unprofitable fields and may from time to time enter entirely new fields in search of higher yields on their capital. Nationalised industries, on the other hand, have to work in a set field and to satisfy the nation's demand for goods or services in that field. They are, therefore, concerned not with the absolute return on their investment but with the comparative return on alternative investments. Thus B.E.A. are concerned not so much as to whether they should provide new power stations but where and how new power stations can be built so as to satisfy most economically the nation's power requirements. N.C.B. similarly have to judge proposals for sinking new collieries or reconstructing existing collieries by reference to alternative methods of providing coal of a particular type and quality in the place where the demand exists. Incidentally these two examples illustrate the necessity for co-operation between nationalised industries, as the B.E.A. power station programme should obviously be closely linked up with the N.C.B. colliery programme, and the two industries have to work together in planning their developments.

There are at present two main financial restrictions on capital expenditure. The first is set by the borrowing powers of the various boards (referred to later) and the second by the Government control of capital expenditure, which results in a limitation on the annual capital spendings of various industries.

In the case of the coal industry development work takes so long to carry through in many cases that planning of capital expenditure is necessarily long-term, and it is for this reason that the Board propose to plan even their year-to-year spendings within a broad national plan which provides the framework for capital development of the industry over a period of about 15 years. Each year the divisions and areas have to estimate their requirements for the coming year, and the Board then decide on the capital allocations to be made to them. Within these broad allocations divisions are free to spend the money as they think best, subject only to submitting the biggest schemes for prior approval by the National Board; these schemes are defined generally as those costing more than £100,000. Similarly, the divisions delegate powers to areas, who themselves deal with the small schemes.

When schemes are submitted for approval by the National Board or by divisional or area managements, they have to contain a detailed description of the proposals, a summary of the estimated expenditure required and estimates of the operating and financial results to be achieved. When the scheme is completed a report has to be sent to the approving authority, stating the actual expenditure incurred and the results achieved.

Within this framework there are, of course, all the usual detailed arrangements for authorising expenditure and controlling the execution of the scheme.

In controlling revenue expenditure nationalised industries have to rely mainly on the well-tried methods which have been successful under private enterprise. The magnitude of their operations, however, makes it particularly important for them to use budgetary control to the greatest possible extent.

For overhead expenses generally, budgetary control is

relatively simple, provided that due regard is taken on the one hand of the need for the budgets to constitute effective controls and not merely to represent advance estimates, and, on the other hand, of the need for flexibility and for too narrow a financial outlook to be avoided.

It is less easy to control direct production expenditure by means of budgets, and it is in this field that standard costs become important. The results of experiments by nationalised industries in standard costs will be of considerable significance to future financial control.

One of the most important requirements in dealing with receivable accounts is the institution of an efficient system of credit control. In the N.C.B. there are divisional or area marketing and sales accounting, and a customer may be supplied from several sources; thorough co-ordination of credit control is essential. This is being dealt with by dividing the Board's receivable accounts into three groups. The first, local accounts, comprises those of customers dealing only with one division or area, with credit handled locally. The second group, composite accounts, comprises those of customers dealing with two or more divisions or areas, and for these accounts one division or area accepts responsibility for credit control and co-ordinates records and action. The third group, national accounts, comprise important national consumers and others whose credit can best be controlled from Headquarters.

VII. PRICE POLICY

N.C.B. are charged by the Coal Industry Nationalisation Act with the duty, *inter alia*, of :

making supplies of coal available, of such qualities and sizes, in such quantities and at such prices, as may seem to them best calculated to further the public interest in all respects, including the avoidance of any undue or unreasonable preference or advantage.

They are also directed to secure that :

the revenues of the Board shall not be less than sufficient for meeting all their outgoings properly chargeable to revenue account on an average of good and bad years.

Broadly similar provisions appear in other nationalisation Acts. B.T.C. stated in their report for 1948 that they interpreted the provisions of the Transport Act as meaning that the transport system should, *inter alia* :

offer the maximum of service that can be provided from its share of the national resources and labour and materials at the lowest cost which is compatible with reasonable conditions of employment and with the duty of the Commission to meet all their costs, including depreciation and the amortisation of capital.

The overall results intended to be achieved by the price policies of nationalised industries are fairly clear, but the determination of prices and charges for different goods and services introduces immense problems.

B.T.C. are required by the Transport Act to prepare a charges scheme, or a series of schemes, relating to all the services provided by the Commission for the carriage of passengers and goods, for port facilities and for the storage of goods and to submit the scheme(s) to the Transport Tribunal within a specified period. It is not difficult to envisage some of the controversial and difficult questions which will arise; of relativity of charges between different

kinds of transport, different classes of traffic, different journeys, and so on.

B.E.A. are required by the Electricity Act to promote the simplification and standardisation of methods of charges for supplies of electricity. Again, serious problems have to be solved.

While the Coal Industry Nationalisation Act contains no such direction for coal as those I have just quoted for transport or electricity N.C.B. inherited a coal price structure which was unsatisfactory, mainly because of the large flat-rate increases in coal prices since 1939, which had destroyed the relativity of coal prices established in normal trade conditions. Adjustments have already been made to remove anomalies, but the process is by no means complete.

The Board have carried out an immense amount of work on the evaluation of different kinds of coal, and have expressed their view that the balance of advantage lies with a "zone-delivered" price structure, under which the country would be divided into price zones and within each zone the price of a particular sort of coal would be the same, irrespective of the situation of the producing colliery.

Obviously, important problems of price policy of some of the nationalised industries remain to be solved, and it is unnecessary to stress their importance to the nation's economy.

VIII. FINANCING ARRANGEMENTS

There are points of some interest in the arrangements for the provision of capital for nationalised industries. The N.C.B.'s capital is provided directly by the Government; the Board do not issue stock. On the other hand the transport, gas and electricity authorities issue stock, although they require Treasury approval and the stock may carry a Treasury guarantee. A great advantage of the method adopted for coal is that the Board never hold surplus capital funds; in fact, they operate what is in effect a current account with the Government and, by having balances on all banking accounts (wherever held) cleared daily to the Bank of England through the head offices of the clearing banks, they eliminate surplus funds of any kind and reduce interest charges to the minimum. On the other hand the Board have no effective control over the timing or terms of the public issues by means of which their capital may be provided.

Professor Hicks suggested, in his book *The Problem of Budgetary Reform*, that nationalised industries should be brought within the national budget. He stressed that the control which he envisaged would be a banking control and would not affect their autonomy or infringe the principle of treating them as business concerns. In the case of the N.C.B., capital advances by the Government already appear in the national budget, but Professor Hicks' proposal would involve an extension of this principle to cover all transactions.

In all cases the compensation payable to former owners is specially financed and the general borrowing powers are defined in the various Acts. The N.C.B. may borrow from the Government to defray capital expenditure (including the provision of working capital) up to £150 million in the five years to July, 1951, and thereafter such amounts as Parliament may determine. In addition, the Board have temporary borrowing powers of £10 million. The B.T.C.

may issue stock to finance (broadly) capital expenditure up to a maximum of £250 million and have temporary borrowing powers of £25 million. Similarly, the B.E.A. may issue stock (or borrow on temporary loans) up to a maximum of £700 million.

There is an important difference between nationalised industries in the arrangements for repayment of capital. The N.C.B. have been directed by the Minister of Fuel and Power to repay capital advances by means of terminable annuities for periods of fifty years; the funds for the capital portion of the annuities are provided out of the provisions for depreciation and amortisation. New borrowings provide for new assets (except in so far as other funds are available) and there is a general balance of capital assets and capital liabilities, subject to temporary variations due to such factors as differences between the period of repayment and the average period for depreciation and amortisation. Borrowings to provide working capital are exceptional, as they have to be repaid over a period of fifty years although the working capital remains in existence. On the other hand the Electricity Act provides (and transport and gas have similar provisions) that charges to revenue in every year shall include :

... proper provision for the redemption of capital and proper provision for depreciation of assets or for renewal of assets and all payments (including the payments which are by the relevant provision of this Act, or by any other relative enactment, to be deemed to be capital payments) which fall to be made in that year to any local authority under Part II of this Act in respect of any loan of that local authority. . . .

In their report for 1948 the B.T.C. explained that (in accordance with the British Transport Stock Regulations) provision is being made for the redemption of British Transport Stock over a period of 90 years, with compound interest at 3 per cent. per annum. The amount charged in the revenue account for the year 1948 was £2.5 million; investments are earmarked in the balance sheet to cover the capital redemption account.

B.E.A. stated in their report to March 31, 1949, that they were :

of opinion that the sum of £31,307,104 which they and the Area Boards have provided fully represents the amount properly attributable to the year in respect of the discharge of capital expenditure, and that it may in consequence be taken to cover proper provision for the redemption of capital as referred to in Section 45 of the Act.

The sum of £31,307,104 was made up of items described in the revenue account as "depreciation of fixed assets" and "amount written off intangible assets." There appears to have been no charge to revenue for capital redemption, but £3.8 million was stated to have been carried to a redemption fund account for stock; a small sum was applied in purchase and extinction of stocks, and investments to the amount of the balance were earmarked in the schedule to the accounts.

IX. BANKING

Nationalised industries are obviously concerned to make the most efficient use of the available capital, and for this and other reasons banking arrangements are of some importance.

In the case of the N.C.B. considerable demands are made

on the banks in various coalfields to provide cash for wages to the extent of about £5 million a week, and there is no corresponding regular inflow of cash as there might be with, say, the railways.

Discussions with the clearing banks resulted in an arrangement by which all the clearing banks placed at the Board's disposal their services throughout the country. In return the Board agreed to allocate their banking business to the various banks in the approximate proportions in which it was distributed before nationalisation.

The Board hold their main banking accounts with the Bank of England and there is a complete system of daily clearing by which balances on all the accounts held in the coalfields for the various divisions and areas are cleared daily, all balances (debit or credit) being transferred to the London offices of the bank and thence to the Bank of England. Thus no surplus funds are held in banking accounts; any surplus being transferred daily from the Bank of England to the Government in reduction of advances to the Board and any deficit being met by transfers from Government funds within the borrowing powers already mentioned.

Thus the Board have the advantage of local banking accounts without suffering the disadvantage of idle funds. The special problem of providing large sums of cash for wages at many different points throughout the country is met by the Board making available to the banks in London each week an imprest of the approximate amount required, in consideration of which the banks make available the actual sums required at the various points without reference to London. The imprests are reviewed from time to time and adjusted according to circumstances.

X. TAXATION

The nationalised industries are not excused from taxation and are liable to income tax and Profits Tax.

The income-tax assessments of the industries are made on the same lines as those of the previous owners, but in fact their taxable capacity has been largely reduced as they are not expected to earn profits (taking a period of years), except to build up reserves.

Computations of taxable profits have to be prepared, and involve some interesting problems, particularly in the initial stages. Some of the problems are common to all the nationalised industries. B.T.C. and B.E.A. had to clear up taxation liabilities of the past; while the N.C.B. had not to face this difficulty they had special problems of their own.

The 800 separate colliery concerns in the past prepared detailed computations of taxable profits on lines which were far from uniform. For instance, some of them charged renewals of plant, though the majority obtained wear and tear allowances. Even where they deducted wear and tear there were many variations in the classes of plant for which they elected to claim. The Board came to the conclusion that in the interests of economy procedure must be standardised and that they should so far as possible make arrangements with the Inland Revenue minimising the extent of the information required year by year from their various accounting offices. For this purpose they devised a standardised form of computation which could be sub-

mitted by divisions and consolidated without difficulty into a national computation.

A code of capital and revenue charges had to be prepared by the Board for application throughout the country; settling this code was anything but simple, since practice in capital and revenue matters had varied considerably. It was also decided that as from the vesting date plant generally should be dealt with on a wear and tear and not on a renewals basis. This decision itself involves the serious problem of valuing and classifying an enormous quantity of plant previously dealt with on a renewals basis. Another difficult task is that of splitting the wear and tear computations of undertakings which have only been partly taken over.

The Board's difficulties are complicated by the fact that they are governed by an arrangement made between the Inland Revenue, the Ministry of Fuel and Power, and the Mining Association of Great Britain, whereby the coal-owners contracted out of the principal provisions of the Income Tax Act, 1945, which introduced annual allowances for tax purposes in respect of mines and industrial buildings. Moreover, the arrangement (given statutory effect in the Finance Act, 1947) also provided that the Board should "stand in the owner's shoes" with regard to the taxation values of fixed assets, the transfer to them not being treated as a sale.

Since the former owners were excused from having to evaluate buildings and mines to implement the 1945 Act, the Board are faced with the problem of settling values throughout the country. These values have to be based on the expenditure over many years past of the colliery owners, and records available in the offices either of the colliery owners or of the Inspectors of Taxes are unlikely to provide an accurate and detailed analysis of capital expenditure throughout the past history of the collieries. The task is an immense one, and it is likely that agreement with the Inland Revenue will eventually have to be reached on broad lines.

Once the initial difficulties have been overcome the Board should arrive at a point where taxation will involve a minimum of time and labour. It is hoped that the Inland Revenue, who have been most co-operative throughout, will then be able to accept the figures produced to them with the minimum of investigation, since they will be prepared on principles agreed in advance. If so, a tiny staff at Somerset House will be able to deal with the computations of the whole of the coal industry.

Before I leave taxation I would like to refer to a Profits Tax point. Interest on borrowed money is normally deductible from profits assessable to Profits Tax, but since, apart from reserves, the deduction would leave the nationalised industries with hardly any profits to tax, the Government apparently considered that an endeavour must be made to preserve some continuity of taxation treatment. Accordingly the Finance Act, 1947, contained a special provision by which the industries were treated as though their capital still consisted of share capital and debentures and other borrowed money in proportions similar to those existing before the vesting dates; they may charge against profits assessable to Profits Tax only the proportion of their interest payments deemed appropriate, having regard to the

extent to which the previous capital of the industries consisted of borrowed capital, the interest on which would have been similarly chargeable. You may have observed that in their submissions to the committee which last year, under the chairmanship of Mr. Millard Tucker, considered the taxation of trading profits, the nationalised industries drew special attention to this provision and to their view that it is unsatisfactory and may involve them in substantial tax liabilities when they have earned no profits. The arrangement is particularly open to criticism in cases where nationalised industries took over from concerns (for example, electricity undertakings) which were statutory undertakings within the meaning of the Finance Act, 1937, and accordingly exempt from Profits Tax.

XI. CONCLUSION

I have dealt summarily (perhaps even sketchily) with some of the accounting and financial problems of nationalised industries.

These great concerns are unfortunately the subject of political controversy, which may sometimes tend to obscure the merits and demerits of their policy and actions. I regard it as most important that in the field of accounts and finance, with which I am concerned in this paper, there should be an informed flow of comment and criticism, and there could be no more suitable occasion for it than a conference of a leading body of professional accountants.

I hope that what I have said will stimulate constructive criticism which will help those responsible to carry out more effectively their important duties in such vital parts of the nation's economy.

[Concluded]

BRITISH INSTITUTE OF MANAGEMENT AUTUMN CONFERENCE

THE BRITISH INSTITUTE OF MANAGEMENT WILL HOLD A CONFERENCE at Harrogate from November 16 to 19. This is the fifth of the Institute's Conferences. On this occasion meetings will be divided into "panel debates" and "discussion sessions." At the panel debates, which will deal with the broader issues and will have no paper circulated in advance, there will be several speakers, representing different points of view, and no attempt will be made to reach formal conclusions. The discussion sessions are intended for those who wish to discuss a specific subject in considerable detail. Papers at these sessions will be circulated in advance and the aim will be to reach definite conclusions.

In addition there will be informal discussion groups, limited to 10-15 persons.

A very comprehensive programme has been planned. Among the discussion sessions of particular interest to accountants are those on the following subjects: *How Can Management Make the Most Effective Use of Existing Means of Raising Capital?*; *Whether the Trustee Functions of the Board of Director should be Separated from its Management Functions and be Exercised by a Separate Body*; *The Introduction of an Individual Assessment Bonus Scheme—a Case Study*.

Of more than seventy subjects put down for the informal discussion groups there may be noted: *Presentation of Annual Accounts—Can these be made Understandable by the Average Employee and Shareholder?*; *Internal Financial Auditing*; *Management Accounting in Small Companies*; *Inventories of Working Progress—How Can These be Kept Down?*; *Remuneration of Directors—What principles are Involved?*; *Office Mechanisation—How far can this be Applied to the Smaller Office?*; and *Advertising Appropriations—On What Basis should these be determined for Budgeting Purposes?*

Points in Practice

RAPID INVESTIGATION OF A BUSINESS

OCCASIONS FREQUENTLY ARISE WHEN an accountant is called in to report urgently on the affairs of a business. The report may be required within perhaps 24 hours, for a client who is proposing to make a loan for the business, for the debenture holders who are considering the appointment of a receiver, or for some such urgent purpose.

It is assumed that in a typical case the client has little or no knowledge of the business beyond that contained in the last balance sheet taken out eight or nine months ago. Armed with this balance sheet the investigating accountant commences operations. He finds on inquiry that the bought and sold day books have been fully posted to date, but that the private ledger has not been written up since the date of the last balance sheet. The half-yearly stocktaking was prepared recently and a copy is available. The accountants have obligingly lent a copy of their last trial balance.

First Considerations

It may sound heresy to an accountant if it is stated that the books are only of secondary importance, a mere aid to ascertaining the facts that matter. But that is indeed so. The questions to be answered must be kept to essentials, and the essentials to be considered are:

- (1) The personnel occupied with management;
- (2) The excess of assets over liabilities;
- (3) The liquidity of the assets to meet liabilities;
- (4) Profit-earning capacity.

The Personnel

The most important persons are likely to be the proprietor, or the partners or the directors, as the case may be. Let it be assumed that the subject of the present investigation is a limited company. Particulars of the directors and shareholders should be obtained by inspection of the file at the Joint Stock Registry.

An analysis of the salaries account will provide a list of working directors and other officials, whilst the wages book will give a list of other employees.

With the assistance of the manager or some other competent official a schedule can now be prepared of the various duties carried out by each director and employee of the company. This will provide an index to the various activities of the company current at the time and will act as a valuable aid to an intelligent inspection of the factory departments and the machinery. It may be useful to know something of the psychology and capabilities of the more important members of the management. Their propensity for good or ill in the business may be all-important. Questions such as the following are bound to suggest themselves. Is the managing director a practical man? Could he work at the bench if let down by an employee? Has he a good grasp of financial control? All such points may have to be learned more by unobtrusive observation than by direct question. In the course of discreet and friendly chats with other officials much useful information can be obtained.

Premises

A walk around the premises will provide an idea of the area and location and of the state of the buildings. Their general suitability for the trade carried on or, in the event of a forced sale, for some other trade, is a material point. The nature of the tenure should be ascertained by an inspection of the freehold conveyance or of the lease or tenancy agreement, as the case may be. These documents will not be available if the premises are already mortgaged and in such circumstances the name of the mortgagee should be obtained. Inquiry of the latter can be pursued if considered necessary. Generally it will be sufficient to ascertain the existence of the mortgage and to verify from the ledger the amount advanced. Circumstances may, however, require that the title deeds be produced. Note should be made of repairs covenants, liability for rates, etc. Inquiry from the local authority as to zoning under the Town and Country Planning Act may in some cases be advisable.

A reference to the premises account in the private ledger may disclose that although part of the premises are fifty years old nothing has been written off by way of depreciation. It may have been apparent to the investigator on his tour of inspection that these old buildings are dilapidated and at the end of their lives, although shown at cost in the balance sheet. This would be a matter for comment in his report.

Machinery and Plant

Too often it is found that obsolete machinery has not been written-off but has been allowed to remain in the balance sheet for purposes of window dressing. A visual inspection of the plant itself may disclose this. The account in the ledger may show that although machinery was purchased many years ago little or nothing has been written off as obsolete. The analysis already made of the various occupations of the employees should be a helpful guide to the machinery in use and a few well-chosen questions to the works manager may elicit from him how much better his production could be if he had new machinery installed. Machines on hire may occasion difficulty. It is quite common to find machines hired in respect of which no hire purchase deposit has been paid. A plate bearing the name of the owner is usually attached to such machines—the point should be borne in mind, particularly where machines have the appearance of newness. If there is any doubt about ownership or hire or hire purchase a certificate should be obtained from the managing director.

Motor Vehicles

A glance at the registration books combined with entries in the books should be sufficient to establish whether motor vehicles are or are not owned by the business.

Stock

The ordinary inquiries familiar in audit practice should be carried out. The method of valuation of work in progress should receive particular attention.

Book Debts and Creditors' Balances

Whilst the investigating accountant is busy pursuing his general inquiries it will be useful to have an assistant

extracting debtors' and creditors' ledger balances at the date of the last half-yearly period and at the present time. If there are any accounts in which large *contra* items are set off these should be noted, since they would not be available as security for a debenture holder. A look-out should be kept for debts long overdue, or bad, and for debit balances, the exact nature of which is not obvious.

Profit and Loss

Since the private ledger has not been posted it will not be possible to prepare a profit and loss account from the date of the last balance sheet, but if all the information is available to fill in the asset and liability items of the balance

sheet at a particular date some indication of loss or profit will be possible. By comparing the excess of assets over liabilities at the latter date with the similar excess shown by the last balance sheet an indication of net profit or loss will be given. Some check on this will no doubt be possible by ascertaining the increase or decrease of turnover for the period. When the usual rate of gross profit is applied to this, and proportionate overhead charges taken into account, the result should not be greatly different from the net profit or loss indicated by the balance sheet.

Report

In most cases of comparatively small businesses the work above indicated

could be carried out within a day or two, and if the matter is urgent a verbal report to the client would no doubt be appreciated. This should be followed by a report in writing with suggested headings as follows:

- (1) Shareholdings and Directorate;
- (2) Business—Its nature—The turnover and profits;
- (3) Management and Personnel;
- (4) Premises;
- (5) Machinery;
- (6) Vehicles;
- (7) Stock and Work-in-Progress;
- (8) Debtors and Debit Balances;
- (9) Cash position;
- (10) Trade and Expense Liabilities;
- (11) Loans and Debentures;
- (12) Reserves;
- (13) Estimate of current profit or loss;
- (14) General observations.

What the Business Man expects from the Accountant*

By JOHN RYAN, C.B.E.

(Vice-chairman of the Metal Box Co., Ltd.)

THE ANSWER TO THE QUESTION POSED IN THE TITLE OF THIS paper must to some extent be qualified by individual circumstances. In the time at my disposal I cannot cover adequately the whole field, so for the purpose of this talk I propose to restrict myself to that part which I know best, namely, to the relationship which I think should exist between the business man and the chief accountant of a large industrial undertaking. Similarly, I take the expression "business man" to represent the top management of the undertaking.

THE ACCOUNTANT'S TRAINING

I approach the subject by seeking to establish first of all just what the accountant has to offer in his purely professional capacity. For surely what the business man expects, and ought to expect, of an accountant must be conditioned by what the accountant himself is trained to provide.

Let us therefore examine his training and the nature of the routine duties which fall to him in his progress through a business organisation. I consider this as the reasonable approach, for one ought not to expect certain things of people if their training and experience do not qualify them to provide it.

I have, therefore, been very interested to study your Society's examination syllabus, which has recently been

revised. It is obvious that the principal element in the accountant's training, as exemplified in this syllabus, is still the preparation of the financial accounts. Considerable attention is also being devoted to the kindred subjects of taxation and the relevant aspects of the law. I see that in the Final examination, papers on these subjects occupy 15½ hours out of a total of 21 hours. The remaining time is taken up with a two-hour paper on cost accounts, another two-hour paper on economics and a 1½-hour paper entitled "General Financial and Commercial Knowledge."

Your Society has also published some general notes on the profession of accountancy, as an introduction to the examination syllabus. I have found that these notes, besides being an interesting account of the scope of the profession from the point of view of the prospective candidate, also shed some light on our subject to-night.

I would like to quote some passages from these notes to you:

- (1) the duties of the accountant are as manifold as the uses to which financial accounts are put.
- (2) it will often be found that the successful practising accountant is as good a business man as he is an accountant.
- (3) the candidate who feels generally attracted to a business career will find no better preparation than an accountancy training.

I have deliberately picked out three passages which refer to accountancy in a wider context—as a function of, and training for, business management.

* A paper given at the Incorporated Accountants' Course, Balliol College, Oxford, on September 15, 1950.

No one would quarrel with the statement that a training in accountancy is a valuable qualification in business, as indeed it is in many other walks of life, but I believe it would be a mistake to suppose that an accountancy training is, in itself, a sufficient training for management. Many accountants do, of course, reach the highest positions in industry, but I think that it is fair to say that when an accountant does take up a job in management he has for the time being ceased to be an accountant; he is, or at least should be, utilising other techniques and other methods.

There are many other pathways towards the same goal and many chances of starting right but not getting there.

The first passage I read to you makes another point which is, I think, very relevant to our subject: "the duties of the accountant are as manifold as the uses to which financial accounts are put."

Now this bears directly on our subject. If the duties of the accountant are essentially duties involved in the preparation and interpretation of the financial accounts, then we must decide what this implies for the accountant employed in an industrial undertaking.

THE REQUIREMENTS OF MANAGEMENT

The financial accounts themselves are naturally fundamental in any organisation; the carrying on of any form of business activity without them would be unthinkable. But because the form of these accounts has always been dictated primarily by legal and Inland Revenue requirements, they have unfortunately only an incidental value in day-to-day management.

If a business man uses financial statements as a general and detailed guide to what is happening in his business, he is employing figures designed for other purposes.

During recent years, therefore, more and more people have become aware that other kinds of figures are needed; figures gathered for the express purpose of controlling and planning operations. Such figures are, of course, additional to the normal financial statements—they really take the place of personal observation in the small firm.

It might be supposed that here is a field in which the accountant is peculiarly fitted to work, and I think that this is the principal question we have to consider to-night. My thesis is as follows: The whole tenor of the accountant's training is directed to the preparation of the financial accounts, and this fully occupies him in most industrial undertakings; but in these undertakings we now have a growing demand for figures of a different kind. Can the accountant be reasonably expected to meet this demand? Are the financial accounts themselves able to supply it?

Now the emphasis placed on financial statements by the law, coupled with managements' natural desire to keep overheads as low as possible, has in the past often worked against any attempt to create new methods to obtain these new figures—and in many cases the work has automatically devolved on the accountant. There has been an implicit assumption that training in figures of one kind must naturally qualify a man to deal with figures of all kinds.

Is this a fair assumption?

Before dealing with this question, it would be as well to examine in a little more detail what other kinds of figures are actually required. The question really resolves itself

into two parts: What does the management require, and who should provide it?

The first point to recognise is that, speaking generally, the average business man is rather frightened of figures—being in this respect very unlike the accountant. Some accountants love them so much that they sometimes act as if the business had been set up to produce figures rather than goods or services. Beware of that grave error. The business man therefore wants all the figures submitted to him to be as clear and relevant as possible. Furthermore, from the management's point of view, figures are only valuable in so far as they lead to action, and this usually means that they must be prepared very quickly.

Similarly, all unnecessary detail should be eliminated, although, of course, it must be available on demand. As far as the top management is concerned, statements should be designed to bring out the salient features of the situation and these features only. Lower down the scale, of course, more detail will be necessary. In many cases a graphic or pictorial form of presentation can be used with advantage. Above all, speed is essential. It is far better to receive information in time for action to be taken—even if this means having it in round figures—then to wait a month and receive it correct to three places of decimals. The first statement will be news, the second—history.

I was very impressed by an observation made by a distinguished soldier on a paper delivered at last year's Management Conference at Harrogate:

There are two separate types of operations, namely, the set piece operations and the subsequent more fluid and fast-moving operations. Examples of set piece operations are Alemeins, the "Overlord" assault in Normandy and the crossing of the Rhine; examples of fluid operations are the advance across the desert up to the expulsion of the Axis armies from Africa and the advance from the Normandy bridgehead to the Rhine.

There is a great difference between these two as far as information is concerned. In the set piece operations there is comparatively ample time to obtain, sort out and appreciate your intelligence. In fluid operations there is never enough time and this is where the great art of command is practised or not as the case may be. "Shall I wait for more information or must the decision be made now to be effective?" This is where the military intelligence machine is all-important. If it is sluggish or inaccurate, great opportunities are irretrievably missed or great blunders made, just because there was not sufficient intelligence at the commander's disposal when the decision had to be made. There must be parallels in industry.

I agree with you that any miscarriage or mischance must be reported at once so that the commander who holds the reserves can correct it if he wishes, but far, far more important is the rapid and accurate reporting of success so that the reserves can be used to exploit it at the right and fleeting moment, which never returns. This is how battles are won.

The operations covered by these management control statements will vary according to the business. An examination of the various functions in the organisation will show the kind of information required.

All industrial undertakings, for example, have to sell their products or services in one form or another. The commercial manager, therefore, will need to know how his sales and orders are progressing, in some detail, and in a form which allows a comparison with past results, or the sales budget.

Similarly, the production manager has to be kept informed of the progress of manufacturing operations, and of all the factors which may affect such operations.

These are the routine statements which in one form or another must be made in any industrial undertaking which has grown too large for personal control.

The management of such an undertaking, however, may require—indeed, will require—to be kept informed in a much wider sense than this. Productivity, transport, fuel consumption, quality control, scrap and waste, distribution costs, accidents, market research, personnel administration, labour turnover, consumption of materials, are all fields of activities susceptible to the statistical approach. I think that you will appreciate that here we have a demand for figures very different in kind, both in presentation and scope, to those required for inclusion in the annual balance sheet or taxation return. Nevertheless, many of these “management control” figures spring from the same source as the “accounting” figures, and because this is so, confusion arises as to who is or should be responsible for their compilation and presentation.

THE PRODUCTION AND INTERPRETATION OF FIGURES

There is, however, in reality, no necessary connection between responsibility for the physical production of figures and responsibility for their planning and interpretation. An over-riding consideration must, of course, be to avoid duplication or overlapping, and to ensure uniformity of general statistical method. But beyond that both purpose and the use of the two sets of statistics may be very different indeed.

Just as the whole bent of the financial accountant's training is directed towards a certain end, the presentation of facts expressed as figures in the form best suited to the requirements of current accounting practice, so must the management control figures be compiled—only the end is different.

Now if this latter end is to be achieved successfully the individual responsible will need to have certain qualifications. First of all he will need to be familiar with the precise significance of the symbols with which he deals. He must, in other words, know the business pretty intimately, both production and sales. Has the accountant the time and opportunity to acquire the knowledge?

He must also be able to relate this knowledge to outside events, for no business operates in a vacuum. It is always being affected by influences outside its control. It is the job of the person who prepares information for the management to be able to relate statements of internal operations to external factors, and to do this he must draw widely on national and international statistical sources.

We have, in other words, a need for an interpretive function, acting as a kind of advisory and information service to the management.

Now plainly, in many small businesses, it is the accountant who will have to satisfy this requirement, for he will probably be the only person in a position to do so. But I think that in so doing, he will have to realise that he is not doing the job for which he has been trained—and that it will involve an approach which may in many ways run counter to his whole acquired mode of thought.

In the large organisation, therefore, it may be desirable to seek another solution. Here the issue can be complicated by the existence of a system of cost accounts, which may be thought to provide the answer to the very problem we have in mind—the planning and control of operations. But even costs accounts do not provide in themselves a complete picture of business activities. They are only part of a whole. This should not be understood as in any way disparaging their importance and value; they do, from the management's point of view, throw up an exceedingly valuable picture of operations. But it is a detailed picture, designed primarily for interpretation on the spot, reflecting the course of operations in a single producing unit. Cost accounts are both over-detailed on the one hand, and insufficiently related to outside factors on the other, to have a direct value to the top management in an original form. Cost accounts are, in other words, exceedingly valuable raw material for the provision of information to management, but they are not—or should not be—the finished product.

It is worth remarking, however, that the cost accountant does himself have an advantage in one field over the financial accountant, in that he has his roots in the factory rather than the office. He is therefore better qualified to interpret operating figures to the management.

But here again, the cost accountant has his own job to do, and although in some circumstances it may be practicable and desirable for him to enlarge his sphere of activity to provide all the figures management requires, he is, in so doing, stepping out of his strict role and must abandon the professional attitude of the accountant for that of the management.

He runs the very grave risk of not being able to see the wood for the trees. The very necessary integration of financial and cost accounts is sometimes suggested as a means of producing the very information we have been talking about, but I am sure that the mere fact of integrating two separate sets of records will not in itself provide the answer, although there may be many other advantages from the point of view of economy and increased efficiency.

The real answer lies elsewhere; and I think that it is this. The provision of information to management can only be successfully undertaken by someone thinking in general management terms, and by someone with practical knowledge of the problems, plans, and objectives, with which the management are concerned. It cannot be done from the outside, for just as control cannot be obtained simply by comparing results with the objective after the event, but requires a close knowledge of what factors underlie and condition the objective itself, so the responsibility for control statements should lie with the man responsible for the setting of the objectives. We need for this job what, for want of a better term, I would call a “business statistician.” We need a distinct division of figure work within the organisation along organisational lines. All aspects of financing accounting, and this includes those aspects of cost accounts whose main value is in maintaining the financial accounts, should be completely separate functions.

This does not affect the physical production of the figures at all, but only the form which they should take and the subsequent use made of them.

I have used the phrase “an interpretive function,” and

I think that this phrase really describes what we are after. The fact that such a function may use figures to express facts, and will often draw upon the same sources as the accountant, must not be allowed to confuse the two.

I do not know whether, in the future, the accountants may seek to make this field their own. There are some signs that many accountants are aware of the possibilities, and also aware of what is involved. I am not sure myself whether the two jobs can be combined, but I am sure that it certainly cannot be done without a complete reorientation of present accountancy training.

Whether this is possible without detriment to present standards of financial accountancy is a question one must leave to the profession itself to decide.

So far I have been most concerned perhaps to point out what the business man does *not*, or at least does not necessarily, require of the accountant. How then do I conceive the accountant's role in the management and organisation of a large-scale business?

THE ACCOUNTANT'S RESPONSIBILITY

To my mind the accountant has two foremost contributions to make to the running of a large business, or indeed to a business of any size. First, he is in a position to apply an analysis of quite minute precision to the operations of the business at given points of time. His findings may take some time to calculate and the reports will necessarily follow after the appropriate time for action on the various points of detail. Once a year, too, he will call on the assistance of an authority even more objective than himself—the external auditor. Between his own staff and the staff of his auditors the entire financial structure of the company will have been subjected to the most painstaking analysis, with all the checks and cross-checks that can be devised by the terror of the law and the scruples of his profession. The management may well wait impatiently for the figures, and many decisions on day-to-day matters will of necessity be made before their arrival. But delay of that nature—provided that it is kept within limits—will not impair the true value of the financial accounts. This value lies and must continue to lie in the safeguard which the accounts provide over the financial health of the company. They serve to protect the interests of the shareholder, the State, the management and the employees. They constitute both a check on past operations and a guide to future action. The figures which they bring to light are (or at least should be) above all question. For first and foremost they are presumed to be accurate.

This question of accuracy is one upon which I invite you to focus your thoughts for a few moments.

Accuracy does not come by chance. It is a positive thing, sometimes a painful thing. Carelessness is so much easier—careless observation, wishful thinking, inaccurate listening, lazy mental habits, indifference.

Because accuracy means steady, thoughtful effort, it is irksome to many brilliant natures. Many a fine scheme that looks noble in general outline falls to dismal failure through lack of careful planning and accurate execution.

Is it too much, then, to demand of others that they be accurate in whatever information they may convey to us? Or to demand of ourselves the utmost care against error in

our statements to others who may depend upon us for reliable information?

In industry, accuracy, more than any other one thing, has made possible high speed combined with high quality. Every executive of a large enterprise knows that for successful operation he must rely first of all on the accuracy of statements given him by subordinates. He cannot hope to visit every department or inspect the whole operation with one pair of eyes, yet he must visualise and co-ordinate the activities of perhaps dozens of departments or plants each day. To manage the enterprise successfully he must have reports and figures upon which he can depend absolutely.

My discussion on accuracy leads on to the second, and possibly the chief, contribution which your chief accountant, and your accountancy profession as a whole, can contribute to a business and, indeed, to the entire industrial structure.

There are in the field of finance a large number of terms in use whose very meaning is, to say the least, obscure, and it is upon the interpretation of many of those terms that the whole financial structure of a business is founded. If I refer only to such words as "costs," "assets," "depreciation," "capital," you will know the sort of thing to which I refer. Now it is in the understanding of such terms and in the interpretation and application of their significance to the operations of a business that I believe lies the true field of accountancy. It is here that the business man may expect, indeed must expect, all the guidance and help which he can get from his chief accountant.

Indeed, I would go further. There are few aspects of the whole field of business management which are more urgently in need of freshness and originality of thought than that of true financial accounting. I say this in no sense of disrespect for a profession for which I have the greatest admiration, nor in ignorance of the great progress which has already been made since the war. But the accountants have for years been carrying on their struggle to cope with the demands of the Treasury, of the Inland Revenue, of Company Law, of the Stock Exchange, of their boards of directors, and of their functional executives. Who can blame them if at times they have become weary of the struggle, and even if they have shown a very natural desire to escape into the more free, and perhaps more exciting, field of statistical interpretation and general management control? But they would be wrong, fatally wrong, to consider that the fields of financial and cost accounting are too constricted even for the most ambitious amongst their numbers; or that the scope for advance and development in their own technical field has in any way diminished with the passing of the years. Indeed, the development of large-scale business and the complexities of modern business life have created opportunities without parallel in the past.

If the management of a business still looks to his accountant first and foremost in his professional capacity, it is not because the accountant has failed to prove himself worthy in the broader fields of business management. It is rather because in the technical execution of his own professional duties there lies all the responsibility that a man can reasonably be expected to assume.

Financial control is therefore a tool of management—it is perhaps a whole machine shop of them—and as such it must be up to date, always kept in trim, and deliver the

goods. It is not the master, but the handmaid, and is no substitute for the line authority. It must avoid in particular two extremes.

On the one hand the theoretical accountant's approach which tends to "strait-jacket" a company in finance, for this nearly always leads to a contraction of business, particularly during difficult times. Please do not think I am deprecating the value of sound finance and the necessity of conserving one's resources in such circumstances, but it is rather the reluctance to engage in risk taking, often the life and soul of the business, which one finds is emphasised by that type.

On the other hand the professional financier will often take the entirely opposite view and show a major interest in developing what I might call the outside prestige, and in boosting the business in the financial sense rather than in the soundness of its products.

Financial control must, as I have said, keep itself up to date and technically efficient. To-day, like many other things, it finds itself adrift from some of the sheet anchors which it had grown to think of as immovable. Inflation has brought a range of problems in which accountants all over the world are seeking answers to their own questions. The revision of many of the conventional accounting principles, the construction of balance sheets, the effect of technological progress on the replacement of fixed assets, the revision of costings, the methods of calculating taxable profits, the methods of valuing stocks, etc., are all in the melting pot. In this country, where inflation has been comparatively small, realisation of these problems is slow to crystallise, but in countries where it has been uncontrolled, there is a general recognition that the old principles are outmoded.

I want, however, to place the main emphasis not on the day-to-day recording of financial results, but on the earlier planning which should have taken place in the policy of the business.

I am amazed when I see, as I do from time to time, companies having to announce drastic changes in their fortunes—so different from announcements they may have made some months before.

I am led to the conclusion that those in control did not know what was going on, could not see the wood for the trees, or were like the little girl who said: "How do I know what I think till I hear what I say?" There is no excuse for a refusal to have intelligent budget forecasting. Without it, no business can achieve all that is possible. With it, achievement can be immeasurably better than those who have never practised it can ever believe. I exhort them to try it and see for themselves—we know much more about what is going to happen in the future than we think. You may consider this a very bold thing to say in these treacherous days when we are not master in our own house, but are only slowly emerging from the mass of controls, quotas, restrictions, etc., inherent in the waging of a war—indeed, it may be that a policy of full employment now accepted by all political parties may also bring with it a continuance in the same or another form of similar conditions. Of one thing we may be certain—we shall never go back to the conditions before 1939, let alone those before 1914.

And in striving for a solution to the new problems we may be setting a lot more for ourselves.

Take the new provisions of the Companies Act, admirable in principle, full of safeguards to protect the ignorant and punish the guilty. Do they not in many ways complicate rather than simplify the issue? Have we not experienced cases where directors, in order to comply with the law, publish a jargon which is meaningless to themselves and, therefore, must surely be even more so to the uninitiated?

We must be careful, therefore, that our financial control in the business does not gum itself *and us* in its own web.

It is a tool of management and must, therefore, not merely be content to produce evidence and information, but to distil from it what it all means, to project forward its advice on what can happen to affect our business and to show us in clear and unmistakable form what is happening, and to do it quickly.

A new world of exciting adventure lies before you. Do not let yourselves stagnate in a routine atmosphere which worships form and ceremony more than dynamic action.

No one has a better chance to be management's guide, philosopher and friend—accept your opportunity to the full in both training and experience, and industrial prosperity will provide its own reward.

Joint Venture Guarantees

It has become a commonplace to talk of the Chancellor of the Exchequer being a partner in all businesses—in the sense that as the tax-gatherer he holds a stake in every undertaking. A new departure in Government partnership is now announced, but in this new form while the Government bears a share (usually one half) of losses, it is limited to a moderate maximum amount as its share of profits.

The scheme is the "Joint Venture" offered by the Exports Credit Guarantee Department to businesses exporting to North America. Guarantees under the scheme are to assist exporters (1) in increasing sales and placing larger funds at risk, or (2) in increasing home production for the North American markets, or (3) to assist in the whole gamut of exporting activity from the purchase of raw materials to the receipt of final cash returns, a combination of (1) and (2). In effect, the Department and the exporter become partners in a limited partnership for a period of between four and seven years, with the exporter's share of possible losses limited to the agreed proportion and the Department receiving at the most the premium charged for the cover.

It is expected that the scheme will be welcomed by exporters wishing to build up a lasting trade with the United States or Canada. Some have been deterred by the possibility of a decline in the present high prices of raw materials, by the risk of cancelled orders due to changes in fashion or new types, and by the necessity of manufacturing goods in advance of firm orders. All these risks can be covered under the Joint Venture.

This new guarantee is a development of others offered by the Export Credits Guarantee Department during the last year as part of its "dollar drive." There is now a wide range of export credit policies available for the exporter to North America, in addition to the normal insurances which have been underwritten by the department for many years.

The Companies Act—Shortcomings seen by the Company Secretary

The Chartered Institute of Secretaries held its Country Conference at Weston-Super-Mare in September. Four papers were read. They were "The Accounting Vista—Company and National," by Sir Frederick J. Alban, C.B.E., F.C.I.S., F.S.A.A.; "The National Health Service Act, 1946, with Particular Reference to Hospital Administration," by Captain J. E. Stone, C.B.E., F.S.A.A., A.C.I.S.; "Incentives in Industry," by Robert P. Crout, F.C.I.S.; "The Limited Company and Its Banker," by L. G. Mather, B.Com. We comment briefly upon Sir Frederick Alban's paper in a Professional Note on page 380.

There was also a discussion on points submitted by members on the working of the Companies Act, 1948. We reproduce these points below as we feel that they constitute a valuable and comprehensive criticism of those provisions of the Act which have been found to be unsatisfactory or ambiguous in the actual experience of those responsible for the secretarial functions of businesses.

A. Suggested New Provisions

(i) SECTION 8, TABLE C. COMPANIES limited by guarantee may not adopt Table C as their articles of association.

Suggestion: That provision should be made for companies limited by guarantee to adopt Table C without registering special articles.

(ii) SECTION 8. AUTOMATIC APPLICATION OF TABLE A. Table A applies to companies registered under the Act which do not file special articles, and to companies which file special articles to the extent that such articles do not exclude or modify Table A.

Suggestion: (1) That if no articles are registered and the company does not expressly adopt Part I or Part II of Table A, Part I should apply.

(2) That Table A should apply where, although special articles have excluded it, they have nevertheless omitted to make adequate provision for certain purposes, such as, for example, sealing.

(iii) SECTIONS 8, 394 (3) AND 459 (14). APPLICATION OF TABLE A TO OLD COMPANIES. Companies adopting Table A in whole or in part adopt the Table A appended to the Act under which they are incorporated. As time goes on and new Acts are passed with new Tables A, the articles of companies which adopt the earlier Tables become more and more out of date.

Suggestion: That new Tables A, as they come into force, should automatically replace earlier Tables where these have been adopted, unless companies concerned pass specific resolutions to the contrary.

(iv) SECTION 18. NOTICE OF CHANGE OF NAME. There is no provision requiring companies to notify members and debenture holders of a change of name.

Suggestion: That companies should, within 28 days of the receipt of the new certificate of incorporation issued by the Board of Trade, notify all members and debenture holders of the change.

(v) SECTION 107. CHANGE OF REGISTERED OFFICE. A company need not notify its members or debenture holders of a change of registered office.

Suggestion: That companies should be required to notify any such change to their members and debenture holders.

(vi) SECTION 53 (3). BROKERAGE. The Section approves the payment of brokerage provided it has previously been lawful, but does not expressly legalise it.

Suggestion: That payment of brokerage be legalised.

(vii) SECTION 56. SHARE PREMIUMS. If a company acquires the undertaking of another company and the paid-up value of the shares of the acquired company is less than the value of the acquired shares, the difference is a premium. This may have arisen because of the revenue reserves of the acquired company.

Suggestion: That where the identity of the members of the acquiring company is substantially the same as that of the acquired company, power should be given to the Board of Trade on application to relax the restrictions of this Section and permit a

proportion of the premium to be used as revenue.

(viii) SECTIONS 86, 87 AND 125 (1) (c). REGISTER OF DEBENTURE HOLDERS. While these Sections all refer to this register, there is no Section which specifically requires any such register to be kept. The keeping of such a register is therefore only statutory by implication.

Suggestion: That statutory provision be made for the keeping of a register of debenture holders.

(ix) SECTION 124, 6TH SCHED. LIST OF DEBENTURE HOLDERS IN ANNUAL RETURN. A list of debenture holders is not required to be included in the annual return.

Suggestion: That such a list should require to be so included.

(x) SECTION 129. EXEMPT PRIVATE COMPANIES. One of the requirements for qualification as an exempt private company is that no shares are held by nominees. Some members consider this to be too rigid a regulation in respect of the subsidiary of a private company.

Suggestion: In the case of a company which is a subsidiary of a private company, nominees of the holding company should be allowed to hold shares to the extent of not more than 5 per cent. of the total issued share capital of such subsidiary company.

(xi) SECTION 200. REGISTER OF DIRECTORS. It appears that there is no duty imposed on directors to disclose information in connection with the requirements of this Section. The secretary has therefore to rely on his directors in this respect.

Suggestion: That a duty be imposed on directors to disclose to the secretary of a limited company the necessary information required for this Section.

(xii) 8TH SCHED., PARA. 11 (8). BALANCE SHEET. Trade investments are excluded from the requirement to show the aggregate market value of a company's quoted investments.

Suggestion: That trade investments should be included.

(xiii) SECTION 372 (2). ABSTRACTS OF RECEIPTS AND PAYMENT OF RECEIVERS. It has been decided in *Industrial & General Trust, Ltd. v. Welsh Anthracite Collieries, Ltd.*, and the Trustees Corpora-

tion, Ltd., 208 L.T.Jo. 275, that receivers appointed before the 1948 Act came into operation need not conform with the provision for sending to the Registrar of Companies abstracts of their receipts and payments.

Suggestion: That the Act be amended to require that such abstracts should be sent regardless of the date of the appointment of the receiver.

(xiv) SECTIONS 1, 31, 222 (d) AND 224 (1) (a). "ONE-MAN" COMPANIES. Many companies are in fact, if not in form, "one-man" companies. It is considered by some members to be a needless restriction to provide that a private company must have not less than two members.

Suggestion: That the lower limit on the number of members of a private company be abolished.

B. Provisions causing Difficulty in Practical Application.

(i) SECTION 38 (5). "APPLICATION FORMS" IN RIGHTS ISSUES. This Section refers to the issue to existing members of "forms of application" including rights of renunciation. In practice a letter of provisional allotment or a letter of rights including the usual form of renunciation is issued.

Suggestion: That for "forms of application" be substituted "provisional letters of allotment or letters of rights."

(ii) SECTION 52 (1) (a). RETURN OF ALLOTMENTS. RENOUNCES. The Act requires a return of allottees. Owing to the widespread use of renunciation facilities, such a return is obsolete before it is filed.

Suggestion: That a return of renounees should be permitted at the company's option in place of a return of allottees.

(iii) SECTION 52 (2). RETURN OF ALLOTMENTS. BONUS SHARES. Where shares are allotted as fully or partly paid up otherwise than in cash, either the contract constituting the title of the allottees to such allotment must be filed, or, if it is not in writing, details must be filed on the appropriate form (52). These requirements obviously apply in the case, e.g., of vendors, where shares are being allotted in exchange for property or other assets conveyed to the company. They have no application in the issue of bonus shares where no

consideration of any kind flows from the shareholders to the company. Nevertheless, the Registrar requires form 52 to be filed in respect of bonus shares.

Suggestion: That in the case of an allotment of bonus shares no contract in writing need be filed under this Section.

(iv) SECTION 74. NUMBERING OF SHARES. This Section implies that where share numbers have been dropped and subsequently a further issue of the same class is made (which temporarily is almost bound not to rank *pari passu*) share numbers of the original issue must for such temporary period be revived. Had the original shares been converted into stock there is no suggestion or requirement that they should be re-converted into shares and numbered pending a new issue becoming *pari passu*. During the temporary period mentioned such additional shares are in effect a different issue and are so treated for the purpose of stock exchange quotations.

*Suggestion: That when an issue of further shares not ranking *pari passu* with the existing shares of the same class is made, the existing shares be not required to be re-numbered.*

(v) SECTION 110 (1) (b). REGISTER OF MEMBERS—DATE OF ENTRY. The date of acquiring membership is deemed to be the date on which a person is first entered in the register. This is usually ignored in practice, the date entered being the date of the board meeting at which the allotment was made or the transfer by which shares were first acquired was passed.

Suggestion: That the date of becoming a member be the date of approval of the allotment or transfer by the board of directors.

(vi) SECTION 124 (1) (c). DETAILS OF TRANSFERS IN AN ANNUAL RETURN. Details, including date, are required every year of each individual transfer. The concession of making a full return every third year does not affect the details required regarding transfers and is in fact considered by some members to be largely illusory.

Suggestion: That each return should contain (a) a straight list of all present members with their current holdings and (b) a straight list of all past members whose membership has ceased since the previous

return, together with their holdings at the date of the previous return.

(vii) SECTION 124 (1) AND 6TH SCHED., PART I, CL. 3 (f). COMMISSIONS. The annual return is required to disclose the total amount of commissions paid by a company since formation. Owing to an apparent conflict in the 1929 Act between the Act itself and the relevant Schedule, some companies have in the past only returned commissions paid since the date of the previous return. Many companies will, therefore, have no figures available of early commissions paid and so will be unable to comply fully with the 1948 Act.

Suggestion: That a return of commissions paid since the date of the last return be only required.

(viii) SECTION 149. CONSOLIDATED PROFIT AND LOSS ACCOUNT. A holding company is not required to prepare a profit and loss account as well as a consolidated profit and loss account so long as the latter account shows how much of the consolidated profit and loss for the financial year is dealt with in the accounts of the holding company. The aggregate of retained profit of the group tends, therefore, to be concealed.

Suggestion: That the holding company should be required to publish its own profit and loss account as well as a consolidated one.

(ix) SECTION 154 (3) (b). A doubt appears to exist regarding the date when a company first becomes a holding and/or subsidiary company if not so defined prior to the 1947 Act. The date may be either that on which the company first became qualified, as now defined, or that on which the Act came into operation.

Suggestion: That the matter be clarified.

(x) SECTION 159 AND SCHED. 8, PARA. 13. REMUNERATION OF AUDITORS. At present it is necessary to disclose auditors' fees only if not fixed by the company in general meeting. In consolidated accounts, therefore, under "audit fees" there will be shown only the fees paid by the holding and the subsidiary companies not so fixed. Some fees may be included, some excluded.

Suggestion: That it be obligatory to include all auditors' remuneration for all the companies concerned.

(xi) SECTION 162, SCHED. 9. REPORT OF AUDITORS. Some members consider that a report in the present recommended form is too long.

Suggestion: That a certificate of compliance with the Act be adequate.

(xii) SECTION 185 (7). AGE LIMIT FOR DIRECTORS. The opinions of members on the opportunity that companies have of contracting out of this section are canvassed.

(xiii) SECTION 200 AND 6TH SCHED. It appears to some members that the provisions requiring details of "other directorships" held by directors of companies may be interpreted to exclude all reference to directorships held in companies not incorporated in Great Britain; other members consider this inference to be incorrect and think that the proviso excepting directorships held in wholly owned subsidiary companies incorporated in Great Britain does not apply to directorships in wholly owned subsidiary companies incorporated outside Great Britain.

Suggestion: That the relevant provisions be clarified.

(xiv) SECTION 200 (4). REGISTER OF DIRECTORS. Under this Section all changes in directorships must be registered. If a director holds a number of directorships in different companies this entails each of those companies registering the change.

Suggestion: Changes should be filed only by the company which the individual concerned leaves or joins, and not by all the companies of which he is a director.

(xv) TABLE A, CL. 79. LOANS. A member in a bank is doubtful whether an overdraft would be considered as a "temporary loan" for the purpose of this clause.

Suggestion: That more exact phraseology be used.

C. Apparent Drafting Errors

(i) SECTION 158 (1) (b). ISSUING OF ACCOUNTS. This sub-Section exempts companies from the requirement to issue accounts to members or debenture holders "who are not entitled to receive notices of general meetings of the company and of whose address the company is unaware." The word "and" in the quotation above is a misprint for "or."

Suggestion: That the word "or" be substituted for the word "and."

(ii) 8TH SCHED., PARA. 15 (4). HOLDING COMPANIES' ACCOUNTS. The requirement to annex to a holding company's accounts a statement of past profits and losses of subsidiaries not included in consolidated accounts applies even when their exclusion is due to the holding company being itself a wholly owned subsidiary of another body corporate and being accordingly excused from preparing consolidated accounts by Section 150 (2) (a).

Suggestion: That the requirement should not apply in these circumstances.

(iii) SECTION 179. DIRECTORS ACTING IN DUAL CAPACITY. The Act provides that at least two persons must act where a director and secretary have to attest documents, i.e., it prohibits acting in a dual capacity, but it does not go on to provide that at least three persons must act where two directors and a secretary are required, and so on.

Suggestion: That the words "one or more directors" be substituted for the words "a director" in the second line of this section.

(iv) SECTION 197. LOANS TO OFFICERS. This section requires disclosure in the accounts of loans to "officers" and former "officers" of the company. The term "officer" is ambiguous, although Section 451 (1) states that "officer" includes a director, manager or secretary. It is not clear whether it has any wider meaning.

Suggestion: Clarification is desirable.

(v) SCHED. 7, CL. 2 (2) (b). EXEMPT PRIVATE COMPANIES. In order to avoid possible disqualification as an exempt private company, shares or debentures registered in the name of mortgagees or their nominees shall be treated as held by the mortgagor. This seems to be contrary to Section 117 in that it provides for recognising a trust. It also involves recognition, as a holder, of a person of whose identity the company may be unaware. The expression "treat as a holder" is ambiguous; literally it implies substituting the name on the register and admitting the mortgagee to all the rights of membership. The mortgagor would hardly be agreeable to losing his rights in this way.

Suggestion: Some clarification seems desirable.

D. Apparent Conflicts within the Act itself

(i) SECTION 159. APPOINTMENT OF AUDITORS. Sub-Section (i) requires that auditors shall be appointed at each annual general meeting. Some members think that this conflicts with sub-Section (ii), which states that retiring auditors (subject to certain conditions) shall be reappointed without any resolution being passed—on the view that if no resolution is passed no re-appointment can take place.

Suggestion: That the section be reworded, e.g., by adding to sub-Section (i) "subject to sub-Section (ii) of this Section" and by substituting in sub-Section (ii) "shall be deemed to have been reappointed" for "shall be reappointed."

(ii) 7TH SCHED., CL. 2 (4). EXEMPT PRIVATE COMPANIES. TRANSFER OF SHARES. On the execution of a transfer it is provided that "the transferee shall be treated as the holder notwithstanding that the transfer requires registration with the company." The company may be unaware of the execution of the transfer and could only be so aware if it had the transfer in its possession when registration would be effected (or refused) in the usual way.

Suggestion: Clarification is desirable.

A Profitless Change?

The chairman of a large public company said, at the recent annual general meeting, that the expression "net profit for the year" was being dropped in favour of "unappropriated balance after meeting all charges and liabilities for the year." This seems to us a curious decision. If "profit" produces undesirable psychological reactions in some quarters, would the new term do otherwise? There is an old adage about a spade. . . .

The Public Trustee

In the year ending March 31 last, 608 new cases, with a total value of £12,681,226, were accepted by the Public Trustee. The average value of new trusteeships was £24,044 and of executorships £19,633. The new cases under £5,000 in value were 54 per cent. of the whole and the average acceptance fee was £126. At the end of the year there were 19,918 trusteeships and executorships under administration, with funds of the nominal value (excluding real and leasehold property) of approximately £250 million.

Leaves from the Notebook of a Professional Accountant

Retrospective and Retroactive Legislation

By ERNEST EVAN SPICER, F.C.A.

EVERY RIGHT-THINKING PERSON MUST SURELY AGREE THAT retrospective legislation is the negation of justice and should in no circumstances be tolerated.

We all appreciate the fact that "ignorance is no excuse in the eyes of the law," and although the absurdity of the maxim is fully recognised, it is accepted as being the lesser of two evils. To extend the maxim, however, to embrace future legislation would, we suggest, cast ridicule on our whole judicial system and it is seemly that this important question should be ventilated so as to ensure nation-wide condemnation.

Nobody suggests that an action which is unquestionably legal to-day should not—in proper circumstances—be rendered illegal as from to-morrow. What is suggested, however, is that it should not be altered as from yesterday. It should be possible—at any rate theoretically—for a citizen to ascertain whether any particular action which he proposes to take to-day is or is not lawful.

We are not, be it understood, concerned with borderline cases involving an interpretation of the law. We are considering actions which, to-day, are unquestionably lawful and thus immune from any penalty, but which, as a result of retrospective legislation, are deemed to have been unlawful yesterday and thus rendered punishable.

Let us take a simple example from our Notebook in order to clarify the argument.

ILLUSTRATION I

With the laudable object of lessening the number of street accidents, it was made unlawful for a member of the public to use roller skates on the highways of the metropolis, a pastime which, at one time, presented attractions to the street urchin. The ruling assumed the use of a pair of roller skates and the question arose as to whether a street arab, using one roller skate only, and who had been escorted, by a uniformed regulator of the law, to the police station as a cautionary measure, was or was not guilty of a crime.

In due course this important case came before the Courts, and unless our memory plays us false, the legal arguments adduced by the boy—who had attended a course of lectures on Criminal Law at the Whitechapel Polytechnic—were triumphantly upheld, whilst those of the Attorney-General were summarily rejected.

So much for the facts. Let us now draw upon the imagination.

Let us assume that the judgment in this important case

had been delivered on April 1, 1950, and that the Government, recognising the gravity of the issues involved and being determined to deal with the matter with unequivocal severity, amounting almost to savagery, had rushed through a special Act of Parliament with retrospective application as from March 31, 1950.

What, think you, would be the reaction of the British public if they read in their newspapers that our friend, the one-legged roller skater, who had demonstrated so convincingly in the Courts the legality of his rolling action, had been rendered liable, retrospectively, to a fine of 2s. 6d. with the alternative of seven days' imprisonment, for having failed to anticipate an alteration in the criminal law of the country?

Is it not probable that the Roller Skaters' Union would call a strike by way of protest and is it not certain that the dockers would "down tools" in sympathy?

If, therefore, a wrong, perpetrated on a street urchin, would cause the public to rise in its wrath, how is it possible that far greater wrongs, perpetrated on the public as a whole, are taken "lying down"?

We make no attempt to answer this riddle and will content ourselves with a consideration of some of those instances of retrospective or retroactive legislation, which in recent years have cast a blot on the judicial escutcheon of this country.

SETTLEMENT ESTATE DUTY

Prior to May 11, 1914, settled property—in respect of which an additional Estate Duty of 2 per cent. (originally 1 per cent.), known as Settlement Estate Duty, had been paid—was freed from the payment of all further Estate Duty until it passed into the possession of a person competent to dispose of it.

When, therefore, Settlement Estate Duty was abolished on May 11, 1914, the general rule laid down in the Finance Act, 1894, whereby, subject to the exception under the surviving spouse rule, all property passing on the death of a person should be aggregated in order to ascertain the rate of Estate Duty payable, once more came into effect.

So far, so good, and it would be a bold man who would suggest that it was in any way improper for a Chancellor of the Exchequer to press for an alteration in the law governing settled property at a time when additional revenue was

urgently needed, as was the case in the spring of the year 1914 when the clouds of war were already gathering.

Of course, he was justified in abolishing Settlement Estate Duty, but he was assuredly not justified in making the law retroactive.

When, prior to May 11, 1914, the Revenue authorities accepted payment of Settlement Estate Duty, a solemn contract was entered into, whereby, in consideration of the additional 2 per cent. duty paid and acknowledged, it was agreed to free the settled property from all further payment of Estate Duty until it passed to some person competent to dispose of it. Did the Government of this enlightened and moral country honour its pledged word and treat the contract as sacred? Not so. Like Germany, it pleaded that necessity knew no law and that a contract was, after all, but a "scrap of paper."

Had the Finance Act, 1914, decreed that subsequent to May 11, 1914, all settled property, upon which Settlement Estate Duty had not been paid, would be subjected to the payment of Estate Duty, nobody could have complained. To make the Act retroactive, however, was a crime of which this country should not have been guilty.

Let us take an example from our Notebook to illustrate this cruel piece of retrospective legislation.

ILLUSTRATION II

Sir Hazel Knutt died on April 16, 1912, and by his will settled £40,000 on his brother, Mr. Stirling Knutt, for life; then to his brother-in-law, Sir Porphyry Whiting, for life, with remainder over to the Rev. Stephen Collins absolutely.

At the time of Sir Hazel's death Mr. Stirling Knutt was 61 years of age. He enjoyed the worst of health, being a victim of that gentlemanly complaint known as colitis, and was visited daily by his doctor. Altogether, his was a sad case and nobody—least of all Mr. Collins—expected him to survive his brother by more than a few months at the most. In fact, as Mr. Collins remarked to Mrs. Collins on more than one occasion, it would be unchristian to wish otherwise in the face of suffering so bravely borne.

Sir Porphyry Whiting was also 61 years of age at the time of Sir Hazel's death, but in every other respect was the very antithesis of Mr. Stirling Knutt.

He enjoyed life to the full, denied himself nothing, loved good food, rode regularly to hounds and drank a bottle of vintage port after dinner every night of his life. Mr. Collins trembled, therefore, lest he should break his neck in the hunting field or die of apoplexy in the not-too-distant future.

Settlement Estate Duty was, of course, paid following Sir Hazel's death and as this freed the property from the payment of all further Estate Duty on the deaths of each of the two life-tenants, everything appeared to favour the fortune of the remainderman.

Mr. Collins—not unnaturally—experienced an inward glow of satisfaction, as, seated in his armchair, with a cigar in his hand and a glass of wine by his side, he made a mental re-evaluation of the expectation of life of both Mr. Stirling Knutt and Sir Porphyry Whiting. And behold, it was good! With half-closed eyes, he visualised a day, probably less than ten years distant, when he would enter into possession of a neat little fortune approximating £40,000, and with



The Rev. Stephen Collins

As he was when first introduced to the public by Mr. E. E. Spicer in 1913, just after the death of Sir Hazel Knutt. As the drawing shows, he was then of an eager and lively disposition, thanks partly to his expectations of receiving a sum approximating £40,000 from Sir Hazel's estate. And he would have received it, but for the retroactive provisions of the Finance Act of 1914. He "waited impatiently for his money for thirty-seven years" and then got nothing at all. Not only that, but Mr. Greatheart, the professional accountant—for whom he had no brotherly love because of a certain lack of sympathy in the matter of the taxing of cash offerings—demanded a cheque for £10, the balance of the costs!

A drawing by the late E. T. Reed, the famous artist of "Punch."

this thought in his mind, he raised his glass to the memory of Sir Hazel.

There was one clause, however, in Sir Hazel's will which caused Mr. Collins considerable anxiety. In addition to the £40,000 trust, Sir Hazel had settled a sum of £5,000 on Lady Knutt for life, with remainder over to the Rev. Cuthbert Crawler, absolutely. Now Mr. Crawler—who was curate to the Rev. Stephen Collins—owed his good fortune to a powerful discourse which he had delivered during Ember Week of the year 1911, on the building of Noah's Ark, an address which had brought great comfort both to Sir Hazel and to Lady Knutt.

Mr. Collins, very rightly, felt that in this matter Sir Hazel had acted misguidedly and inadvisedly. He realised all too clearly that any sudden accession to wealth would weaken his curate's enthusiasm for pastoral duties and cause him to forsake the true riches for the Mammon of Unrighteousness. Mr. Collins wrote a very moving letter to the trustees begging them, if necessary, to consult learned counsel as to their best course of action.

Their reply—which was received by return of post—was terse and unsympathetic and merely served to prove, as Mr. Collins remarked to his wife, how utterly incapable they were of appreciating his singleness of purpose.

Lady Knutt died on October 31, 1920.

The trust funds, which had to be realised on the death of Lady Knutt, had appreciated in value materially since the death of Sir Hazel and as there was no Estate Duty payable under the "surviving spouse rule," the trustees were able to hand over to Mr. Crawler after meeting the Legacy Duty, a sum of no less than £11,260. Following the advice of Mr. Greatheart, he invested this money in Bank of England Stock, which rose 70 points within nine months.

Mr. Stirling Knutt, despite colitis and Mr. Collins' prognosis, lived to the age of 96 and died on March 20, 1948.

Sir Porphyry Whiting—also aged 96—attended the funeral and at the luncheon which followed the interment, made himself so affable that everybody declared him to have been the life and soul of the party.

Mr. Collins, of course, felt the loss of his old friend, Mr. Stirling Knutt, very keenly and was observed to use his pocket handkerchief several times during the funeral service, but when he realised for the first time that Estate Duty at the rate of 50 per cent.—subject to the repayment of the 2 per cent. Settlement Estate Duty—would be payable out of the trust fund of which he was the remainderman, his distress knew no bounds and even Mrs. Collins was unable to afford him the slightest comfort. When, in addition, Mr. Greatheart informed him that further Estate Duty at a rate not less than 75 per cent. would be payable out of the already depleted trust fund, on the death of Sir Porphyry, he broke down completely.

Must we not all sympathise with the good man? Let us briefly consider the full extent of the wrong suffered by him following the death of Sir Porphyry Whiting, after his third helping of roast goose on Michaelmas Day, 1949, and blush for the Government of this country which in the year 1914 was guilty of so monstrous a breach of faith. We will not trouble our readers with complicated computations but will content ourselves with "round" figures so as to emphasise in the most concise manner the full extent of the tragedy.

	£	£
Value of settled property at death of Sir Hazel Knutt, April 16, 1912 ..		40,000
Less : Settlement Estate Duty paid ..		800
		<hr/> 39,200
Less : Depreciation at date of Mr. Stirling Knutt's death, March 20, 1948		5,200
		<hr/> 34,000
Estate Duty valuation of trust fund ..		34,000
Less : Estate Duty at 50 per cent. payable on death of Mr. Stirling Knutt ..	17,000	
Less : Settlement Estate Duty repaid ..	800	
		<hr/> 16,200
		<hr/> 17,800

Less : Loss on realisation of securities to pay Estate Duty	£	1,200
		<hr/> 16,600
Less : Legal and professional services ..		200
		<hr/> 16,400
Less : Depreciation at date of Sir Porphyry Whiting's death, September 29, 1949		2,400
		<hr/> 14,000
Estate Duty valuation of trust fund ..		14,000
Less : Estate Duty at 80 per cent. payable on death of Sir Porphyry Whiting ..		11,200
		<hr/> 2,800
Less : Loss on realisation of securities to pay Estate Duty		2,600
		<hr/> Amount due to the Rev. Stephen Collins, subject to legal and professional costs
	£	200

The costs amounted to 200 guineas and Mr. Greatheart wrote to Mr. Collins asking for a cheque for £10 so that the trust might be finally liquidated.

It will be observed that whereas the Rev. Cuthbert Crawler expected to receive eventually a sum approximating £5,000, he received actually £11,260, which—thanks to Mr. Greatheart—was invested very profitably.

The annual income which he received from the year 1920 onwards was, in consequence, far greater than he had ever anticipated.

On the other hand, the Rev. Stephen Collins had expected to receive a sum approximating £40,000, and would have done so but for the lamentable breach of faith on the part of the British Government in the year 1914. He had waited impatiently for his money for thirty-seven years and then had got nothing at all. Not only that, but he had actually been asked to hand over a sum of £10 to finalise matters!

To his credit be it said that he refused to allow insult to crown the injury which he had sustained and wrote a spirited letter to Mr. Greatheart, telling him—in language reminiscent of the Prophet Habakkuk—where to look for the money.

Mr. Greatheart did not reply but had the letter framed.

FINANCE ACT, 1943, SECTIONS 24 AND 25

In the year 1941 recourse was made by certain people to a scheme by which the benefit of the scarcity prices of whisky could be obtained, and largely obtained, without attracting Excess Profits Tax.

The steps adopted were as follows :

- To obtain the control of the company, which owned the whisky, by purchase of the shares at a price attractive to the shareholders.
- To replace the directors by nominees of the promoters of the scheme.
- The disposal of the whisky stocks of the company at a small profit to persons not carrying on a trade or business liable to excess profits tax.

- £
1,200
16,600
200
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- (d) The disposal thereafter by such persons of the stocks of whisky at the high prices obtainable in the brokers' market or elsewhere and the consequent avoidance of chargeability to excess profits tax.

Mr. Greatheart was consulted regarding the proposed scheme early in the year 1941, but declined to be associated with it in any way, for the following reasons:—

- (i) Professional accountants and lawyers had been asked by the Chancellor of the Exchequer not to formulate schemes for the avoidance of taxes on the ground that such activities, though perfectly lawful, were opposed to the national interests, more particularly in time of war.
- (ii) He failed to see how the scheme would avoid excess profits tax, since the Revenue authorities would surely argue that any person who bought up a large stock of whisky and then sold it at an enormous profit was carrying on a trade or business, which in consequence could be subjected to the payment of excess profits tax.
- (iii) Such a person would have no profit standard and thus practically the whole of any profit realised would go in the very tax which the scheme set out to avoid.
- (iv) The scheme involved such large sums of money that successful avoidance of tax was unthinkable and might tempt the Chancellor to implement his threat of retrospective legislation, which, on all grounds, was undesirable.

The promoters of the scheme, however, ignored these words of wisdom, with the result that Sections 24 and 25 of the Finance Act, 1943, were introduced, whereby all these whisky and similar transactions were made retrospectively liable to tax and practically everybody who had received a benefit, directly or indirectly, arising out of the transaction, whether cognisant of the tax-avoiding nature of the scheme or otherwise, was rendered jointly and severally liable for the full tax which was deemed by the Commissioners to have been in jeopardy but for the operation of Section 24.

Bankers, lawyers and accountants, however, were specifically exempted, provided the interest or remuneration which they received did not exceed that customary for services of such a character.

Now it is no part of the purpose which we have in mind to defend tax avoidance as such, and we certainly hold no brief for the promoters of the whisky schemes. All we are concerned with is the principle of retrospective legislation, which cannot be defended on any grounds whatsoever.

When Excess Profits Tax was first introduced it must have been obvious to the authorities that attempts at avoidance would be made. They were not lacking in experience of this class of taxation because the Excess Profits Tax was merely a modification of the Excess Profits Duty which had operated during the first world war. There would have been nothing improper, therefore, if it had been made clear from the outset that any scheme which in the opinion of the Commissioners constituted an attempt to avoid the tax, would—subject to the right of appeal to the Courts—be deemed unlawful and subject to penalties. This would effectively have rendered all such schemes invalid and nobody could have objected.

The authorities, however, did not take this obvious course, and when the whisky schemes came to their notice they immediately had recourse to retrospective legislation which rendered unlawful an otherwise legal transaction.

It may not be irrelevant at this juncture to quote the dictum of Viscount Sumner in the case *Levene v. C.I.R.*, which came before the House of Lords in the year 1928:

It is trite law that His Majesty's subjects are free if they can make their own arrangements so that their cases may fall outside the scope of the taxing Acts. They incur no legal penalties and strictly speaking no moral censure if, having considered the lines drawn by the Legislature for the imposition of taxes, they make it their business to walk outside them.

It seems to follow from this and from other general considerations that the subject ought to be told in statutory and plain terms when he is chargeable and when he is not.

In this connection we would remind our readers that there is no equity in a Taxing Statute, and that the Excess Profits Tax in particular inflicted great hardship on many individuals without affording them the smallest relief. It was not surprising, therefore, that with the tax at 100 per cent. efforts should be made to avoid it.

In the whisky cases, where active measures were taken to avoid the tax, those who participated were heavily and savagely punished under the Finance Act, 1943.

Those, however, who adopted passive measures for the avoidance of tax and who refused to sell more than a small fraction of their stock of whisky pending the discontinuance of the Excess Profits Tax, avoided, not only the tax, but also all censure. The passive resisters stood on very solid ground. Nobody could reasonably force them to sell more of their precious stock than they deemed prudent, and they could always argue that it was unwise—in the national interests—to deplete the stocks of whisky in the country during the continuance of hostilities when those stocks might be needed urgently after the war for export.

And who could blame these righteous men for doing their duty?

Surely it is only when duty and inclination run side by side that one has cause to suspect oneself!

Let us, however, choose an example from our Notebook to illustrate how easily the innocent may be confused with the guilty under the operation of Section 24 of the Finance Act of 1943.

ILLUSTRATION III

In the year 1941 Messrs. Whiting Sons & Co., the well-known and greatly respected merchant bankers, were asked to advance a sum of £16,000 on the security of whisky, of which the market value was £22,000, held in bonded warehouses in various parts of Scotland. This was a transaction perfectly normal to their ordinary business and they agreed to advance the money at 5½ per cent. per annum. It was understood between the parties that the whisky would constitute the sole security for the advance and this fact was taken into consideration when fixing the rate of interest chargeable. Another factor which also had to be recognised was that in the event of the loss of any of the whisky through enemy action, the amount of compensation payable by the Government under their scheme of insurance was based on the cost price and not on the vastly greater market price.

For technical reasons which need not be discussed, it was found necessary to blend the whisky, and this involved much

negotiation, to say nothing of a vast amount of additional clerical work. In fact, Messrs. Whiting Sons & Co. found it necessary to divert the services of two important members of their staff to cope with this mass of detail. Naturally, these additional heavy expenses had to fall on the borrowers, and when eventually, towards the end of the year 1942, the transaction was finalised and the loan repaid, Messrs. Whiting Sons & Co. received altogether in respect of interest and charges for nearly two years the sum of £5,120.

And then on a particularly sunny morning in the autumn of 1943 the bomb exploded.

Messrs. Whiting Sons & Co. received a curt letter from the Revenue authorities informing them that having received a benefit, arising out of a transaction which came within the scope of Section 24 of the Finance Act, 1943, which involved the receipt of a rate of interest greater than the normal rate on a loan of this nature, they would be held jointly and severally liable with other persons in the sum of £163,849, representing the full amount of the tax which, but for the operation of the Section, might have been lost to the Revenue.

Naturally their first action was to call in Mr. Greatheart and to place before him the full facts. He pointed out that the suggestion that the firm had charged interest on the loan of £16,000 at a rate exceeding 15 per cent. per annum was ridiculous and that obviously the charges for salaries and other expenses must not be confused with the very reasonable rate of interest which actually had been charged, and he promised to point this matter out to the authorities dealing with these whisky cases.

The Inland Revenue—in spite of Mr. Greatheart's explanations—refused to reconsider their decision regarding the benefit which Messrs. Whiting Sons & Co. had received, and so it became necessary to appear before the Commissioners in Edinburgh.

The importance of the case from the point of view of Messrs. Whiting Sons & Co. could not be exaggerated, because in spite of the fact that the gross sum received by them for the entire period by way of interest and charges was only £5,120, they were nevertheless held jointly and severally responsible with other people—mostly men of straw—in the huge sum of £163,849.

It was deemed necessary, therefore, to be represented at the hearing by Counsel, and so it came about that the firm was forced to incur the expense of sending to Edinburgh an eminent London Counsel, their solicitor, Mr. Greatheart the accountant, three witnesses and a shorthand writer.

The hearing before the Commissioners lasted less than an hour and nobody can deny that justice prevailed, but two years passed by before the Revenue authorities could be persuaded that the costs—which amounted to close on £2,000—constituted a proper charge for purposes of income tax and sur-tax.

* * * *

FINANCE ACT, 1936, SECTION 18

Prior to the year 1936 a great deal of tax was avoided through the intermediary of companies registered in convenient places outside the United Kingdom, such as the Channel Islands, Switzerland, Liechtenstein, Canada, Panama and elsewhere.

The procedure varied according to the particular scheme adopted, but a very popular and simple set-up was the transfer of assets to the foreign company in exchange for a small number of fully paid-up shares of two classes and a large number of non-interest bearing debentures issued at a very substantial discount and redeemable at par.

It was usually provided in the regulations of the company that no dividends should be declared in respect of either of the two classes of shares until such time as the whole of the discount on the debentures had been written off out of the income arising to the company.

The normal control of the company was vested in the "A" class shares which were limited in the matter of dividend to a maximum rate of, say, 5 per cent., subject, of course, to the regulation regarding any outstanding discount on debentures. These shares—which were thus of little, if any, actual value—were gifted to the selected agent in the country where the company was registered, and who usually acted as president and managing director. The shares carried a preferential right as to capital in the event of liquidation, but did not participate in surplus assets.

The "B" class shares carried the right to the whole of the equity of the company after the "A" class shareholders had received their fixed dividend, if any, and, in the event of liquidation, had received by way of capital a sum equal to the par value of their shares.

Each year, the whole of the available income of the company was utilised to write off a portion of the outstanding discount on debentures and in consequence each year the debentures became more and more valuable.

As soon as the debentures became worth their par value, they were redeemed, the proceeds constituting a capital (and thus non-taxable) receipt in the hands of the holder.

Further debentures were then issued at a rate of discount which was deemed just and convenient and in this manner the round game started afresh.

Obviously, the authorities could not afford to allow this state of affairs to continue indefinitely. They knew all about the schemes but for some reason appeared to be very hesitant in tackling foreign companies. Accordingly, in the first instance they turned their attention to British registrations and in so doing failed to distinguish clearly between those "guilty" of tax avoidance and genuine commercial undertakings endeavouring to build up a solid business on lines dictated by ordinary financial prudence.

It was not until the year 1936 that the authorities tackled foreign companies, but it may be said, with some little confidence, that when they did so, they carried out their intention very thoroughly and to all intents and purposes put a stop once and for all to this class of tax avoidance.

Stated very briefly, Section 18 of the Finance Act, 1936, provided that where there had been—at any time—a transfer of assets to a person outside the United Kingdom, whereby an individual ordinarily resident in the United Kingdom acquired a power to enjoy the income either directly or indirectly, immediately or at some future date, whether in the form of income or capital, the income should be deemed to be the income of that individual for all purposes of taxation.

The Section did not apply, however, to companies carrying on a bona fide commercial business where it could

be proved that the avoidance of British taxation was in no way the underlying purpose of the formation of the company.

To object to the introduction of legislation of this nature would be ridiculous, because it is the obvious duty of the Government of the country to do everything in its power to prevent tax avoidance. But why make the Act retrospective for one year for purposes of sur-tax? Is this not an example of legislation specially introduced to penalise one particular class of the community?

Nowadays we hear a good deal about "No Victimisation" from one section of the public and, as we must all agree, consideration is invariably given to the outcry. Surely, therefore, similar consideration should be given to another section of the public, equally innocent or guilty of wrongdoing according to the viewpoint of the observer. When considering tax avoidance impartially, should we not bear in mind that it is not the tax avoider who makes the faulty law, but rather the faulty law that makes the tax avoider? When the law, quite unintentionally, places upon individuals an unjust burden, the individual has no remedy and must continue to pay until by constitutional means the law is altered. When, however, the individual discovers an unintentional loop-hole in the law, he is not only regarded as a "criminal" if he takes advantage of it, but he is actually made a "criminal" retrospectively for so doing. We suggest that this is one-sided injustice.

During the debate in the House of Commons on Section 18, the question was raised whether it would apply to a case where the transfer of assets had been made by a father and the power to enjoy rested with the son, and the answer given was very definitely in the negative.

When the Act was passed, however, no specific provision to meet this concession was included, but the Revenue authorities, recognising that a pledge had been given, for which they were to some extent responsible, made no attempt to deal with these isolated cases until the case of *Congreve v. Commissioners of Inland Revenue* came before the House of Lords in the year 1948. It was held unnecessary to the operation of the Section that the person enjoying the income should be the transferor of the assets.

The Revenue authorities then announced that they could no longer be bound by the undertaking given, since a decision of the House of Lords necessarily overruled all such promises. They decided, however, to refrain from making any assessment prior to the date of the *Congreve* decision in cases where there were no associated transactions.

From the above remarks two conclusions can be reached:

- (a) That a "concession" granted is valueless as soon as a case bearing upon it comes before the Courts.
- (b) That the Revenue authorities, having made a concession, make every effort within their limited powers "to play the game." This point is emphasised, since it is not always appreciated by the grossly overtaxed public.

* * * *

FINANCE ACT, 1950, SECTION 26

The Finance Act, 1950, contains a particularly reprehensible piece of retrospective legislation which applies from

1949-50 and which quite obviously is aimed at two well-known individuals.

Section 26 provides that, with certain unimportant exceptions, any cash or other valuable consideration given to an individual (or to anybody else in his stead) in respect of the giving of an undertaking by that individual to restrict his conduct or activities in any manner, shall be deemed to be income taxed by deduction in his hands, which, after being grossed up at the standard rate of income tax, shall be charged to sur-tax for the year of payment; or, if the individual be dead, for the year of death. The section applies to any individual who holds, or has held, or is about to hold an office or employment, and as regards the undertaking, it matters not whether it be absolute or qualified, legally valid or otherwise.

The Section overrules the judgment of the House of Lords (1942) in the case of *Beak v. Robson* (25 T.C. 33) and as the two gentlemen to whom reference has already been made, and against whom the legislation was primarily aimed, undoubtedly relied on this weighty decision, a brief reference to the case may not prove out of place.

Mr. Robson entered into an agreement with the company whom he was serving, whereby, in consideration of the sum of £7,000, he would not, when no longer in the company's employ, compete with the company within a radius of fifty miles of the works during a period of five years. The Revenue authorities attempted to argue that the consideration constituted income in his hands and was thus taxable, and in consequence the case came before the Courts.

Mr. Robson not only won in each of the three Courts, but in the Court of Appeal and the House of Lords the Judges were unanimous in declaring that the consideration received was not income in his hands and therefore not taxable.

In the past it was recognised that income tax was a tax on income. In the future this will no longer be the case, nor will anybody be able to say with any assurance what is income and what is capital.

In this particular case the cash received was unquestionably of a capital nature, and thus what has been done by statute law is to convert capital into statutory income for purposes of taxation.

There are no lengths to which this vicious principle could not be carried, and if it be done retrospectively merely to punish an individual for being successful, or to prevent him from refusing an attractive offer from a foreign country, the chances of retaining the best brains in the United Kingdom will become progressively diminished. In any community, the number of leaders is always small, while the number of followers is legion. This is perhaps fortunate. But why eliminate the leaders? The followers can never lead, although by marching in circles each one of them may imagine himself to be a leader. We are, however, living in a world of reality, and it is foolish to be deceived by a very obvious mirage.

Let us turn to our Notebook for an example to illustrate the stupidity of retrospective legislation.

ILLUSTRATION IV

In the past many great inventions have been lost to this country as a result of short-sighted policy. At one time it

was thought, by the uninformed masses, that the extensive use of machinery would inevitably cause widespread unemployment, and in consequence many of our most brilliant engineers were forced to cross the Atlantic in order to seek a livelihood in a country where brains were appreciated and adequately rewarded.

To-day, as a direct result of retrospective legislation we are losing three of the most brilliant men of this century. Even if the objectionable clauses in the Finance Act, 1950, could be eliminated, it would be too late.

The die is cast and America will gain the services of three men, whom we can ill afford to lose.

While still an undergraduate at Cambridge, that truly remarkable young man, Montagu Maxwell Austin Whiting, contributed two exceptionally valuable and original papers to the *Transactions* of the Royal Society and quite shortly after taking his degree read a notable memoir to the Edinburgh Philosophical Society which immediately convinced the experts of the genius of its author. Within a year of coming down from the University he was offered a unique position on the staff of the Research Department of one of our most important industrial organisations, with an absolutely free hand to conduct whatever experiments he might think fit.

Not wishing, however, to bind himself for any length of time, Mr. Whiting accepted the offer for one year only, at a salary of £4,000, subject to the condition that he could have as assistants two friends who had co-operated with him in his researches on electricity and magnetism. So immensely valuable did his work prove to his employers that at the end of the year he was offered a contract extending over a period of seven years, with a salary of £10,000 per annum.

Now, it happened that a week prior to the receipt of this offer, Mr. Whiting had received an even more attractive offer from the United States and as he was engaged to be married to an American lady, who preferred the plenty of America to the austerities of Great Britain, he was sorely tempted to cast off his domicile of origin in favour of a domicile of choice.

Before reaching any decision in the matter, he felt it his duty to inform the chairman of the English company regarding the American offer which he had received, and as a result of the conversation which ensued, he received a further offer from his employers to the following effect.

They suggested that he should accept a capital sum of £50,000 as consideration for entering into an agreement whereby in the event of his leaving their employ at the expiration of the seven years, he would pledge himself for a further period of fifteen years not to work for any concern whose head office was situate outside the United Kingdom. Naturally this latest offer modified the whole complexion of the matter, since Mr. Whiting realised how impossible it was for any young man to build up capital out of income, no matter what the gross income might be, having regard to the crushing burden of present-day taxation. He therefore sought the advice of his uncle, Sir Seymour Whiting, who, in turn, referred him to Mr. Greatheart.

Mr. Greatheart, while fully appreciating the munificence of the offer, felt a little worried about the publicity which had been given to certain large payments, which had been

made to two gentlemen as consideration for entering into somewhat similar undertakings, and as he lacked confidence in the Government, urged Mr. Whiting to defer any decision until after the Finance Bill, 1950, had been published.

He argued that if no attempt were made in the Finance Bill to assess retrospectively these large capital receipts, or similar ones in the future, Mr. Whiting could safely take the £50,000, since it was highly improbable that the authorities would attack the relatively small man and allow the big men to go free.

Mr. Whiting decided to act on Mr. Greatheart's advice, which was given on February 17, 1950, and thereby escaped selling his birthright of freedom for a bowl of sixpences.

In July, 1950, he cabled New York accepting the American offer and later received a heart-warming letter from his future father-in-law informing him of that gentleman's intention to settle a sum of five million dollars on his daughter on the day of her marriage.

Thus, as a direct result of this most recent example of retrospective legislation, Great Britain has lost the services of three of the most brilliant men of the present century, to say nothing of the tax on the income of a wealthy American heiress.

[NOTE : Mr. Montagu Whiting informs us that within one year he will most certainly have invented a storage battery (similar to that envisaged by Professor J. B. S. Haldane in his remarkable essay "Daedalus"), cheap, fool-proof and durable, which will enable the intermittent but inexhaustible energy of the wind to be transformed into continuous electric power.

It is distressing to reflect that the vast additional wealth, which this astonishing invention must assuredly create and which represents the spade work of one British scientist of European and international reputation, completed by another, should benefit primarily our cousins over the water rather than ourselves, merely because of retrospective legislation.]

Before closing our Notebook, let us very briefly summarise our views on this iniquitous form of legislation.

Occasionally the underlying object of the legislation may appear so obviously beneficial to the community as to justify its retrospective character. This, however, can never be the case. Two wrongs never yet made a right. An action which is admittedly lawful to-day should never be rendered unlawful as from yesterday, since how otherwise can any law-abiding citizen know whether in fact he is law-abiding? If we deviate from this fundamental principle in order to render the law more terrifying, we shall be throwing liberty to the dogs, for without doubt advantage will be taken tomorrow of the evil precedent which we are setting to-day, by some Government with extremist views.

Was it not Rousseau who said : " Good laws lead to the making of better ones ; bad ones bring about worse ? "

Criminal law has long adopted Voltaire's maxim that it is far better to allow a guilty man to escape punishment than to risk the wrongful conviction of an innocent man. Surely the principle underlying this maxim should be applied equally, if not more so, to the civil law since, in cases such as we have been considering, there can be no

question of any wrongdoing at the time of the action. If this were not the case, retrospective legislation would be meaningless.

We do not ask our readers to sympathise with tax avoiders or for that matter with anybody who takes advantage of a loophole in the law. All we ask is that they should recognise that an action, however much it may offend good taste or appear anti-social, is not a misdemeanour while it remains lawful and should never, in

any circumstances whatever, be rendered so retrospectively. Alter the law by all means as from to-morrow, but do not debase the law by altering it as from yesterday. Let us banish from our legislation all suggestion of vindictiveness, victimisation and other traces of human weakness and aim at what is highest and best, even though this may involve some temporary loss of revenue. We have a world-wide reputation for justice to maintain and it would be a thousand pities if we allowed this reputation to become tarnished.

Taxation Notes

Building Society Interest Paid

INTEREST ON A LOAN FROM A BUILDING society, being annual interest, is not an allowable expense in computing profits. But as, under the special (extra-Statutory) arrangement with the building societies, income tax is not deductible at source, relief is given against the total income of the year, primarily against the Schedule A tax on the property in respect of which the loan has been made.

What is the position where the interest in question exceeds the total income? In that event, if tax had been deductible at source, there would have been a General Rule 21 assessment, which (provided the interest was expended wholly and exclusively for the purposes of the trade) would be eligible to be carried forward as a loss, under Section 19, Finance Act, 1928, for the purposes of Section 33, Finance Act, 1926. The same principle is applied to building society interest in excess of total income.

The same underlying argument is applied to allow the carrying forward of patent royalties paid to non-residents without deduction of tax where double taxation conventions apply; and of interest paid to the Agricultural Mortgage Corporation and other bodies working under similar arrangements for non-deduction of tax at source.

Domestic Consumption

In recent months it seems that instructions must have been given to Inspectors of Taxes to try to enforce a principle which is, to say the least, extremely odd

—that all domestic consumption (for example, on a farm) must be charged out to the proprietor at cost price, irrespective of market value. The argument is carried to the point that where there is a loss domestic consumption is charged at a figure which may be very much above market value.

Quite apart from the time that is wasted on such trivial items, there seems to be a fundamental fallacy here. Obviously, a farmer cannot reasonably be charged for produce more than he would have to pay if he bought it in the market. In most cases, it is equivalent to a sale to his wife. But the most serious side is that it is almost always quite impracticable to arrive at cost. The new practice is therefore to take market value, which, except in the case of a loss, must favour the Revenue: in contrast, the old practice was to take a reasonable figure decided on common-sense lines and without reference to any technical basis of assessment.

It seems that, having been defeated on the valuation of stock (see *C.I.R. v. Cock, Russell & Co.*, 1949, T.R. 367), the Inland Revenue is flogging a new and much more trivial point.

Nobody but the farmer can tell what he uses from his farm; so long as the amount seems reasonable, we deprecate any attempt to measure it on a technical basis. Hitherto, agreement has been reached readily enough on broad bases. The new approach will not result in any other final figures, but is causing much unnecessary argument.

Le Dernier Cri

The Inland Revenue seems to rival *la haute couture* in its fickleness to fashions. Attention concentrates on one point for a time, then switches to another. There are many matters to-day much more important than whether a farmer's pint of milk a day

shall be valued at a cost that cannot be calculated or at the known figure of market value. The only way to bring such things to a head is to appeal in every case. We hope that reconsideration will allow a reversion to former practice.

Evidence

When accounts are submitted to the Revenue it is left to the auditor to do the vouching. Why, then, do so many Inspectors of Taxes ask for vouchers under Schedule E, even where expense claims are prepared by accountants? It is evidence, the writer thinks, of the fact that most Inspectors of Taxes are out of touch with business and its conduct.

If vouchers are to be supplied in support of entertaining expenses, for example, the dishonest taxpayer can obtain them readily. But they are only evidence that someone bought meals, etc., not that the taxpayer did—and certainly not that the persons entertained were on business. Far from making the accountant's task easier, this slavish paper-chase makes it doubly difficult. The nature of the employment, the business done and like facts should be much more illuminating than so-called "vouchers."

Profits Tax—Tax Reserve Certificates

We drew attention in our last issue (page 365) to an anomalous effect of the splitting accounting periods at September 30, 1949, as required by the Profits Tax Act, 1949, when tax reserve certificates are surrendered in payment. In order that the period for which interest on tax reserve certificates is calculated shall not be reduced by reason of such a split, the Treasury have agreed that profits tax

for the chargeable accounting period up to that date will, for the purpose of allowing interest on tax reserve certificates, be treated as due and payable six months after the end of the company's normal accounting period.

Double Taxation Relief

The Double Taxation Relief (Taxes on Income) (General) (No. 2) Regulations, 1950—S.I. No. 1517 of 1950—provide that in relation to any dividend payable on or after November 1, 1950, there is to be an amendment of the Double Taxation Relief (Taxes on Income) (General) Regulations, 1946—S.R. and O., 1946, No. 466.

From that date, in determining the net United Kingdom rate applicable to a dividend paid for a period which falls wholly within a year of assessment, the total income of the company (to be divided into the double taxation relief to ascertain the rate of relief to be deducted from the standard rate to arrive at the net United Kingdom rate) is to be taken as the total income as computed for income tax purposes for that year, after deduction of a certain amount. This amount comprises any income the income tax on which the company (a) is entitled to charge (otherwise than by deduction from dividends) against any person, or (b) would be entitled so to charge but for non-deduction of tax, approved by the Commissioners of Inland Revenue because of the annual payment being to a non-resident. The amendment, in specifying that this amount is to be deducted, makes it clear that the

statutory total income is the proper denominator of the fraction.

Where, as is usual, the company's year overlaps into two years of assessment, the rate for each year of assessment is similarly computed, then apportioned on a time basis to the accounting year. This remains unchanged, except that the rates are ascertained by reference to the amended total income.

Profits Tax Distributions

By Section 35, Finance Act, 1947, it is provided that the gross relevant distributions to proprietors (G.R.D.) for any chargeable accounting period (C.A.P.) are (a) the dividends declared not later than six months after the end of that period which are expressed to be paid in respect of that period or any part thereof, (b) distributions (other than dividends which, under (a), are to be treated as part of the G.R.D. for any previous C.A.P.) made in the period, and (c) certain surplus assets in a winding up. In certain cases, the six months period in (a) can be extended.

The scheme of things is, therefore, that a dividend declared in respect of a C.A.P. (subject to time limits) is regarded as a G.R.D. for that period, but if paid after the time limits, is a G.R.D. for the period in which it is paid.

When we turn to the Profits Tax Act, 1949, Section 2 (4) provides that for the purposes of that Section, the dividends assignable to any accounting period are those expressed to be paid

in respect of that period or any part thereof, but, in the case of an accounting period ending after September 26, 1949, include also any dividends which are declared after that date and paid during the period and are not expressed to be paid in respect of any period.

Section 2 (1), however, says that if, in the case of any accounting period beginning before the end of September, 1949, the total of the dividends assignable to that period exceeds the "governing total" (which is based on the next previous period's dividends), any such dividends declared after September 26, 1949, shall to the extent of the excess:

(a) in determining the G.R.D. for the C.A.P. beginning at October 1, 1949, or for that in which they are paid, whichever is later, be included as a distribution for that C.A.P.; and (b) in determining these for any period other than the one last mentioned, be left out of account.

This is ambiguous. Logically, referring back to Section 35 of 1947, it means that if the dividend is paid within the time limits, so that it is assignable to the period in respect of which it is declared, the excess will fall in the C.A.P. beginning on October 1, 1949, even if paid after the end of that C.A.P.; but if it is paid after the time limits, it will fall in the C.A.P. in which it is paid.

It can be read more easily, however, as meaning that the date of payment of the excess determines the C.A.P. in which it is to be included as a G.R.D. It seems that this interpretation is being applied by the tax authorities, and as it postpones the date of paying the higher rate of profits tax, nobody is likely to argue the point!

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT., Barrister-at-Law

Excess Profits Tax—"Investments"—Copyright in public performance of gramophone records—Company limited by guarantee formed by two groups of companies manufacturing gramophone records—Object of company to protect and exploit copyright in records—Grant to company by manufacturers of right to issue licences and collect fees, etc.—Monies received to be property of company—Receipts after deduction of expenses distributable to members according to rules of operating company—Whether amounts distributed income from "investments" in hands of record-

manufacturing companies—Finance (No. 2) Act, 1939, Section 12 (1), Schedule VII, Part I, para. 6.

Electrical and Musical Industries, Ltd. v. C.I.R. (House of Lords, June 23, 1950, T.R. 197), was noted in our issues of October, 1948 (page 236) and April, 1949 (page 100). In 1934 it was judicially held that manufacturers of gramophone records have a copyright entitling them to exclusive right of public performance; and in the same year a company, limited by guarantee,

called Phonographic Performance, Ltd., was formed by two groups of record-manufacturing companies to co-ordinate the arrangements for granting licences, etc., for such public performances. The new company had no share capital, and its membership was restricted to the manufacturing companies referred to. Monies received from the exploitation of the copyrights, etc., were to be the property of the Phonographic company and profits were to be distributed by it to the constituent members in accordance with the current rules made under Clause 3 (D) of its memorandum. In the chargeable accounting period ended June 30, 1944, the Gramophone Co., Ltd., a subsidiary of the

appellant company, had received the sum of £17,265 from the Phonographic company and it was contended that this sum was income from an "investment" and fell to be excluded in computing its liability to Excess Profits Tax, by virtue of para. 6 of Part I of Seventh Schedule, Finance (No. 2) Act, 1939.

The Special Commissioners, holding that there had been an equitable assignment of rights, decided in favour of the appellant company. Singleton, J., reversed their decision, holding that the relationship between the Gramophone and the Phonographic companies had begun as something in the nature of agency and had ended rather as contractual relation of trader and customer. The Court of Appeal held that the relation was one of agency and also, as did the House of Lords later, that there had been no equitable assignment. In the House of Lords, there was unanimity coupled with diversity of opinions, Lords Simonds, Morton and McDermott holding that the case was one of agency, whilst Lord Normand concurred in the judgment of Lord Reid who, upon the question of agency, felt it difficult to reconcile that relationship with the power of the majority of members to vary the basis of the distribution of the Phonographic company's profits, a distribution which in any case did not depend upon the precise amount collected in respect of each record. All their Lordships agreed that the word "investment" must be interpreted from the standpoint of the business man—not "the man in the street"—and that by this test the appellant company's claim failed. It is worthy of note that the argument that the Special Commissioners' decision was one of fact was held to be nullified in any event by their mistake of law regarding the assignment of rights.

Income Tax—Shares in foreign companies—Dividends received in years prior to year of assessment—First dividend from a company—Shares in that company held for some years previous to payment of dividend—Whether "new source of income"—Income Tax Act, 1918, Sections 2 and 237, Schedule D, Case 5, Rule 2—Finance Act, 1926, Sections 29 (1), 30, 31.

Goodlass, Wall and Lead Industries, Ltd. v. Atkinson (House of Lords, June 23, 1950, T.R. 205), was noted in our issues of December, 1948 (page 279) and February, 1949 (page 45). The result of the House of Lords' decision is to reveal a serious defect in the commencement and cessation provisions of the Finance Act, 1926, which may mean serious loss to the Revenue in similar cases. The facts were as simple as the legal question was complex and difficult. The appellant, a United Kingdom company, had an Argentine subsidiary, the shares in

which had been acquired in 1936 and earlier years. The first dividend, £7,434, was, however, not received until January, 1943. The appellant company held shares in other foreign companies and the dividends therefrom were, pursuant to Section 30 of the Finance Act, 1926, charged in one sum upon the preceding year basis. (An important general point is that their Lordships held that "may" in the Section means "must.") Proviso (6) to Section 29 (1) of the Act determines how tax is to be computed "as respects the year of assessment in which the income first arises." Proviso (i) to Section 30 deals with the case where there is cessation of a particular source and proviso (ii) with the case where a new source of profits or income is acquired in the year of assessment. Unfortunately, proviso (ii) directs that the provisions of Section 29 (1) are to apply in the latter case and, here, six years had elapsed between the acquisition of the last part of the source and the first receipt of income. The appellant company's contention was that the words "in any year of assessment" had the same meaning in proviso (ii) as they had in proviso (i) with the result that proviso (b) to Section 29 (1) could only apply when in a year of assessment a new source was acquired and in the same year income was derived from that source. Upon this footing, the £7,434 in question could not be separately assessed for 1942-3 but would form part of the basis of assessment for 1943-4. The Crown, upon the other hand, contended that in proviso (ii) "in any year of assessment" had a different meaning from what it had in proviso (i) and meant "at any time."

The Special Commissioners and Singleton, J., had accepted the company's contention, but the Court of Appeal preferred that of the Crown. Their Lordships, Lord Simonds only concurring for unanimity, reversed the latter decision and restored that of Singleton, J. In effect, they held that the appellant company was entitled to the benefit of the large element of doubt as to what was the correct interpretation of legislation found to be defective.

Income tax—Will executed prior to September 3, 1939—"Residuary trust fund"—Annuity "free of tax" to be "set aside" out of income of fund and accumulated—Whether "setting aside" constituted "payment"—Finance Act, 1941, Section 25.

In re Banbury (Ch., June 9, 1950, T.R. 217) arose out of the will of Lord Banbury, who died in 1936. The deceased's personal estate was directed to be held on trusts and the resulting fund was described as "the residuary trust fund." The trustee was directed for a period of twenty-one years

from deceased's death to "set aside annually the sum of £1,500 (free of tax) from the income of the residuary trust fund" and to accumulate the same and to add the accumulations to the capital of the fund so as to form one fund. By Section 25 (1) of Finance Act, 1941, provisions made previous to September 3, 1939, for payments of stated amounts free of tax were to be subject to reduction so that the recipients should share in the war burden of increased taxation. In the present case, from the income of the residuary trust fund otherwise payable to the present Lord Banbury the trustee had to make a deduction, and the question was whether this deduction or setting aside should be £1,500 actual or reduced by reference to Section 25 (1). Danckwerts, J., holding that the words "any provision, however worded" indicated that a liberal interpretation had to be given and regard had to the substance of the transaction, found that the case was governed by Section 25 (1). However equitable the result, it is certainly a liberal interpretation of the word "payment."

Profits tax—Directors' remuneration—Controlling interest—Settlement of shares—Shares held by custodian trustee—Custodian trustee's duty to act in accordance with instructions of managing trustees—Managing trustees directors of company—One half of voting shares held by another director—Whether company director-controlled—Finance Act, 1937, Sections 19, 20, 4th Schedule, para. 11.

C.I.R. v. Silverts, Ltd. (Ch., June 13, 1950, T.R. 173), was a case which raised an issue of great importance left undecided in relation to excess profits tax by the case of **J. Bibby & Sons, Ltd. v. C.I.R.** (1945, 29 T.C. 167). In connection with the National Defence Contribution—now the profits tax—in **C.I.R. v. F.A. Clarke & Son, Ltd.**, and **British American Tobacco Co. v. C.I.R.** (1943, 29 T.C. 49) the Court of Appeal had held, that in determining in the first case, whether a company was director-controlled and, in the second case, whether one company had a controlling interest in other companies, regard had to be had to the factual position, and in the House of Lords in the second case it was held that a controlling interest was held by the person "who (by having the requisite voting power in a company subject to his will and ordering) can make the ultimate decision . . . as to how the business shall be carried on." In the **Bibby** case, however, it was held by the Court of Appeal, Lord Greene giving its judgment, that, in considering whether a company was director-controlled, shares held by trustee-directors had to be taken into account, excepting the case of shares held by directors who were

"bare trustees." The House of Lords, Lords Russell, Simonds and Porter (Lord Wright did not deliver a judgment and Lord Macmillan did not touch on the point) had reserved the question of the "bare trustee"—a term which Lords Russell and Simonds seemed to regard as having no definite legal meaning. Otherwise, the decision of the Court of Appeal had been unanimously affirmed.

In the present case, the issue depended upon 6,000 shares which were held in trust under a settlement. A bank had been made "custodian trustee" under Section 4 of the Public Trustee Act, 1906, but, as such, whilst under the Section it was to hold the trust property as if sole trustee and to have custody of the securities, etc., the management of the trust property was to remain vested in "managing trustees," and the custodian trustee had, under the Section,

to concur in and perform all acts necessary to enable them :

to exercise their powers of management or any other power or direction vested in them . . . unless the matter in which he is requested to concur is a breach of trust or involves a personal liability upon him."

The two managing trustees were directors of the company, and, if the 6,000 trust shares had to be taken into account, the company was director-controlled. The Crown contended that the bank was a "bare trustee" and that the exception made by Lord Greene in *Bibby* applied; whilst the company's contentions were, first, that a custodian trustee was not such a trustee and, secondly, that even if he were it was not legitimate to go behind a company's share register. The Special Commissioners had decided in favour of the company; but Romer, J., faced with very evenly balanced

judicial dicta, reversed their decision as the result of a long and careful analysis of the problem.

He said that he shared the doubt expressed by Lord Simonds in *Bibby* as to what was meant by the phrase "bare trustee." He thought that a "custodian trustee" was more than a mere nominee but was still within the latter term as used by Lord Greene in that case. He, therefore, held that the principle of the *Clarke* and *British-American Tobacco* cases governed the appeal, and stressed that the first of these three cases related to a different tax and a different Act. After giving his judgment he pointed out that a decision adverse to the Crown would enable directors to frustrate the intention of the Legislature by nominee transfers, an undoubted consequence which, from the legal point of view, he could scarcely consider in arriving at his decision.

The Student's Tax Columns

BUSINESS ACCOUNTS

IF IT IS REMEMBERED THAT THE EXCHEQUER IS A VERY exacting partner in every business when it comes to sharing profits, it will be appreciated that the State must have a say in how the profits are to be calculated.

A business man, in preparing the profit and loss account, may have very different views from the State on what is to be charged against income. Rules are therefore laid down in the Income Tax Acts setting out what the State will *not* allow to be charged; there are precious few rules positively stating what is allowed as a charge!

Accounts are to be prepared on commercial lines, except where the Statutes lay down something to the contrary; if there is no prohibition in respect of it, an expense that a business man would charge is allowable as a deduction in arriving at profits.

The rules are somewhat voluminous, and in places archaic. They can be summarised, however, as follows :

Expenditure that is not allowed as a deduction in computing profits for income tax purposes.

- (1) Capital expenditure, for example, new assets, improvements to assets, etc. This is fairly obvious; capital expenditure should come out of capital, no matter how much the business man may desire to meet it out of revenue. In effect, if an asset is bought out of profits the process is that the profit is earned, then "saved" and then employed as capital. It is the profit earned that is taxable. A lease premium is capital expenditure.
- (2) Appropriations of profit, for example, profits placed to reserve, paid away in dividends, drawings of

partners, income tax itself. Again, it is the profit earned that is taxable, not what is left after setting some of it aside.

- (3) Depreciation. Certain allowances are given in charging the tax, but none in calculating the profits. This may not be logical; it has peculiar effects, but it is the law.
- (4) Interest and other annual payments from which income tax is deductible at source. Since the tax is deducted from the payment and kept, there would be a profit to the taxpayer from the tax deducted if the interest, etc., were allowed as a deduction in computing profits. By disallowing the annual payment, the profits so paid away are "kept in charge" to tax and the tax deducted reaches the Revenue. (It may be necessary to collect some as explained in ACCOUNTANCY for April, 1950 (page 135), but the principle is unaltered.)
- (5) Expenditure not laid out wholly and exclusively for the purposes of the trade. It is under this heading that many disputes arise. Owing to removal of a phrase from its context in a judgment in the House of Lords, it is often said that to be allowable expenditure must be laid out for the purposes of earning profits. The Acts are not quite so "tight" as that. Money may be spent not of necessity and with a view to a direct and immediate benefit to the trade, but voluntarily and on the grounds of commercial expediency, and in order indirectly to facilitate the carrying on of the business, and yet be regarded as expended wholly and exclusively for the

purposes of the trade. Yet all expenditure that is commercially advantageous is not necessarily admissible as a deduction; it may be prohibited under one of the above headings, for example, as capital expenditure, or too remote from the trade being carried on. To be allowable, expenditure must be incidental to the trade.

Having summarised the non-allowable types of expenditure, it may be useful to state some typical items other than obvious ones such as wages, salaries, light, heat, travellers' commission, trade discounts, audit fees, etc.

Allowable as deductions

- (a) Sums expended for repairs to the business premises;
- (b) Renewals and repairs to implements, utensils, etc., used in the business. (Renewals are not allowable if capital allowances are claimed, and the renewals extend to the whole asset. Renewals of parts to maintain the asset are allowable in all cases);
- (c) Bad debts;
- (d) Doubtful debts to the extent that they are estimated to be bad. Any bad or doubtful debts recovered must be left in credit when received. Care must be taken with a provision against doubtful debts. If a reserve is made against specific debts expected to be irrecoverable, the provision is allowable; if it proves not to be needed, it is equivalent to a bad debt recovered, and the amount must be brought into profits when found to be "free." A provision against the debtors generally, however, is not allowable, and if it is at any time credited to profit and loss account as no longer required, it must be excluded from profits for tax purposes, having already been taxed;
- (e) The rent, or net annual value, whichever is the higher, of the business premises. Part of the profits arises from the use of the premises. The net annual value (N.A.V.) is taxed under Schedule A and must be deducted to avoid double taxation, but if the rent is higher than the N.A.V., the rent is deductible, being a payment made for the use of the premises.
It may be that part of the premises is used as a residence (for example, a flat over a shop). In that event, only the appropriate part of the rent (or N.A.V. if appropriate) is deductible in computing profits;
- (f) Profits tax (this applies to companies).
- (g) Subscriptions to trade associations which have entered into an arrangement with the Revenue to pay tax on their excess of income over expenditure. Other trade subscriptions are allowable only to the extent they are applied by the association for the purposes of the trade, which is usually difficult to show;
- (h) Annual subscriptions to institutions from which employees or their dependants may derive benefit;
- (i) Certain expenditure on research;
- (j) "Short" interest laid out for the purposes of the trade, for example, interest on bank overdraft, on hire purchase transactions, etc.;
- (k) Insurance against business risks, for example, fire,

burglary, loss of profits, but not insurance against strikes or (normally) life assurance;

- (l) Annual contributions to superannuation funds approved by the Revenue;
- (m) In general, legal expenses of maintaining existing rights, for example, debt collection, etc.

Not allowable as deductions

- (i) Salaries of proprietors; interest on capital; drawings by proprietors;
- (ii) Expenses of maintenance of the persons assessable, their families or establishments, or any sum expended for any other domestic or private purpose;
- (iii) Any loss not connected with or arising out of the trade;
- (iv) Any loss recoverable under a policy of insurance or indemnity;
- (v) Subscriptions not covered by (g) and (h) above; this includes most charitable donations;
- (vi) Costs of permanent advertising signs—being capital expenditure. (Ordinary advertising expenditure is allowable.);
- (vii) Losses from misappropriation by a partner or director. (Embezzlements by an employee, where not recovered by insurance, etc., can be deducted.);
- (viii) Costs of raising capital, preliminary expenses, etc.;
- (ix) Expenditure on an asset bought in a dilapidated condition, necessary to put it into a state to fit it for use in earning profits.

Income not to be included

There may have been credited to the profit and loss account certain items that are not part of the profits taxable under Cases I and II, for example:

- (1) Capital receipts—which are not taxable at all.
- (2) Transfers from reserves or provisions that have already been taxed. Compare (d) above re bad debts.
- (3) Income which has already been taxed by deduction at source, for example, dividends received.
- (4) Income taxed under some other Case or Schedule, for example, War Loan or Defence Bond interest (taxable Case III), rent taxable under Schedule A, etc. Rent for a part of the premises, however, is commonly left in; if it is taken out of the profits, there must be disallowed on the other side a like proportion of all expenses, for example, rates, repairs, light, etc., covered by the rent where it is an inclusive one.
- (5) Any other receipt not forming part of the trading profit (this will normally come under (4) however).

Above, reference has been made to "trade"; the same rules apply to any business or profession.

Computations

It is usual to start the computation with the profit and loss balance, add on items disallowable, deduct items credited which are not to be included, and then deduct any expense which is allowable but which has not yet been charged. The last adjustment arises sometimes in partnerships where it has been agreed that partners shall claim certain expenses individually.

Examples, for which there is no space this month, will follow in a later article.

The Month in the City

The Strength of Sterling

REVIVING CONFIDENCE IN STERLING HAS been the dominant feature of the financial markets during the past month. In part this phenomenon reflects a real strengthening of the pound sterling. Witness the fact that in the third quarter of this year the sterling area again secured a genuine current surplus with the dollar world and, helped by further receipts of Marshall dollars, increased the gold reserve to \$2,756 million—more than double the figure to which the gold and dollar reserve dipped just prior to devaluation. That remarkable recovery is a measure of the effect of devaluation on comparative costs. It is also a result of the events set in motion by the Korean affair, of the consequent stepping up of American strategic purchases of sterling materials and of the deterrent effect of rearmament on American commercial exports. Side by side with the strengthening of sterling there has taken place an unmistakable softening of the dollar. Gold has been leaving the United States at the rate of over \$2,000 million a year. In these circumstances, rumours of an upvaluation of sterling have found a propitious breeding ground. All the factors that were depressing the value of sterling little more than a year ago have been temporarily reversed. Every foreign importer now covers his sterling commitments forward. Capital is moving gingerly into the sterling area, on the argument that nothing can be lost and much might be gained by such a move. Forward sterling has risen to a sufficient premium in New York to provide the basis for profitable interest arbitrage operations involving the temporary utilisation of American balances in the London market. The pressure of these funds finding their way into the gilt edged market has been the main factor in the Stock Exchange situation over the month. The *Financial Times* index of Government security prices has risen over this period from 107.11 to 108.87.

The Canadian Dollar

Prevailing uncertainty about the structure of international exchange rates, the rumours of a revaluation of sterling and of a devaluation of the dollar, have all been heightened by the decision of Canada at the end of September to abandon the fixed parity of its currency and to let the Canadian dollar find its own level in a free market. The main reason for the Canadian decision was the desire to protect Canada from the effect of an inordinate influx of speculative capital,

entering mainly from the United States, and held in anticipation of a revaluation of the Canadian dollar to parity with the United States dollar. The Canadian Minister of Finance has pointed out that between the end of July and September 29, 1950, the Canadian gold and United States dollar reserve rose from \$1,320 million to \$1,789 million, the increase reflecting in the main the influx of short-term capital from the United States. Quite apart from this factor the Canadian authorities deemed it desirable to appreciate the Canadian dollar, given the upward trend of prices and costs in the United States and the considerable improvement which had occurred in the current as well as in the capital balance of payments of the Dominion. They did not, however, wish to jump at one bound to parity with the United States dollar, partly because they did not wish to offer a profit of that magnitude to speculative holders of Canadian dollars, and partly because in the prevailing uncertainties of the world economic situation they wished for the time being to leave themselves freedom of action and an open door for retreat. In this context they could not forget the painful consequences of their decision in 1946 to bring the exchange value of the Canadian dollar up to parity with the United States currency. The Canadian decision does not necessarily provide a precedent for sterling exchange policy. Sterling is an international currency in a sense that cannot be claimed by the Canadian dollar. The Canadian dollar reserve is, in relative terms, much stronger than that held by Britain. Canada has linked its exchange decision with the general freeing of import restrictions, notably in relation with the United States. It is more than doubtful whether sterling could safely indulge a similar "dash for freedom" at the moment.

Hot Money in Australia

Australia has also been debating its exchange problem, in the context not merely of the overseas commercial relations of Australia but of the impetus which the high prices of Australia's products, and particularly of wool, have given to inflationary developments within the Commonwealth. The Australian balance of payments is benefiting not only from the inordinately high prices for primary commodities, but as in the case of Canada, from a large inflow of unstable capital. The Governor of the Commonwealth Bank of Australia—who should know—recently estimated that over the past

four years some £300 million (Australian) of capital has gone to Australia for semi-speculative purposes. Some of this is hot money sent to Australia with the hope of earning the profit promised by a revaluation of the Australian £ to parity with sterling. The exchange issue, however, is one on which the two parties that make up the present coalition Government do not see eye to eye. The question has therefore been postponed and, for the time being, the task of reducing the inflationary potential in the Australian economy is being entrusted to orthodox budgetary action and, in particular, to a tax levied on exports of wool and other high-priced primary materials and a pre-payment (not a net increase) in wool producers' tax. The more successful such anti-inflationary action, the stronger will be the case for an ultimate upvaluation of the Australian £, because otherwise prices will be too low in the Dominion in relation to the external value of its currency.

Commodity Prices

The rising trend of commodity prices has been maintained during the past month. Wool has risen to fresh high records. The position of this commodity was considered at a meeting of the Wool Study Group held in London last month. The wool clip for the 1950-51 season is expected to produce 1,865 million lb., which would support consumption 10 per cent. smaller than the current rate. Since the stocks accumulated by the Joint Organisation have virtually disappeared, these figures do not suggest any easing of the scarcity of this commodity. The United States have made proposals whereby their own needs for wool would be satisfied by prior selection before the auctions, the prices to be paid being determined by those actually bid at the auctions. In this way the United States hope to avoid some of the orgies of competitive pre-emptive buying which have recently been the feature of the wool auctions. The proposal did not find any great welcome in Australian circles. Another feature in the commodity markets during the past month was the partial decontrol of timber imports. Imports have been restored to private trading in so far as purchases from soft currency countries are concerned. The Government will continue to bulk-buy from hard currency countries, notably Canada. Larger quantities of timber will thus be obtained but the prices are likely to be considerably higher than those negotiated under the preceding governmental contracts. The United States have ordained a 50 per cent. cut in cotton exports for the coming year, a development of no little importance for Lancashire. The result is likely to be a further hardening in the price of this commodity also. All of these are straws in the inflationary wind.

Points from Published Accounts

This is What Happened during the Year

The accounts of *George Cohen* are presented in a very acceptable order. The report of the directors (which gives the parent's figures when we would have preferred to have seen them dealing with the group figures) is followed by the parent's balance sheet, the consolidated balance sheet, the consolidated profit and loss account and the chairman's statement. Then follow diagrams of the last and previous consolidated balance sheets, and seven pages of pictures.

The diagrams show in block form the size of different balance sheet items, with an enlightening table alongside. A similar table was published last year, and the latest one is worth reproducing because of its frankness and simplicity:

THIS IS WHAT HAS HAPPENED DURING THE YEAR

NET NEW FUNDS:

After deducting costs, the net new funds utilised in the business were as follows:

Trading Profits	..	..	..	..	..	..	..	351,000
Less:								
Taxation	..	..	..	..	..	..	..	222,000
Appropriations	..	..	..	..	..	..	..	123,000
								<u>345,000</u>
								6,000
Profits on Sales of Fixed Assets	..	..	..	..	..	..	..	14,000
Increase in Bank Overdraft	..	..	..	..	..	..	..	357,000
								<u>377,000</u>

THESE FUNDS WERE APPLIED AS FOLLOWS:

Extensions to, and Purchases of, Buildings, Plant and Vehicles	405,000
Less: Provided out of Depreciation	136,000
	<u>269,000</u>
Increase in Stocks	123,000
Reduction of Creditors	125,000
Increase in Cash Balance	7,000
	<u>524,000</u>
Less: Decrease in Debtors	147,000
	<u>377,000</u>
NET ASSETS	3,911,000
Less: Applicable to Preference Stock	1,688,000
	<u>2,223,000</u>

i.e., Net Asset value of 5s. Unit of Stock is
Dividend of 20 per cent. is therefore equivalent to approximately
5.40 per cent. of the Real Capital Employed.

18s. 6d.

It is worthy of comment that there are, apparently, no qualified accountants on the board: presumably the company's auditors may take some credit for this clear exposition.

The Beecham Group

The plea for greater information has been answered by the directors of the *Beecham Group* with a degree of frankness that marks a new high level in the enlightenment of shareholders. In addition to the now customary diagram showing where the money goes, there are analyses of home sales for the past decade for the four broad classifications into which the business falls, with an illustrating diagram; a table setting out the retail value of home sales, the purchase tax included therein, and the home advertising expenditure; a four years' geographical

statement of sales in different overseas markets, plus the profits deriving therefrom; and nine pages of photographs of the group's products, plus a tabulation of the products of the various subsidiaries. The chairman, Sir J. Stanley Holmes, pertinently remarks: "This year we have also enlarged the statement to include details of the group's organisation and products, in the hope that the descriptions and illustrations of the products will enable shareholders to recognise them in shops and stores and help to increase the group's revenue by personal purchase and recommendation to their friends." As the number of shareholders exceeds 33,000, the company stands a good chance of recouping the cost of producing a sumptuous report.

The accounts do not call for comment, except that the amounts retained by the subsidiary and by the parent are shown clearly in the tabular profit and loss account, the latter appearing as an addition to the parent's carry-forward before adumbrating the reserve appropriations of the parent. There are summarised consolidated balance sheets for five years, and an analysis of the disposition of trading profits over the same period. We heartily recommend the study of these accounts to everyone who can lay hands on them.

Through the Safety Glass

The *Triplex Safety Glass* report and accounts are hardly assembled as well as one could wish. The report deals with the parent's figures, and is followed by a photograph of a subsidiary's stand at a British Industries Fair; the consolidated balance sheet; the chairman's speech; summaries of balance sheet items, etc.; two pages of pictures of eight of the employees; and, lastly, the consolidated profit and loss account. There are surely several ways in which this information could be assembled to the better advantage of the shareholder.

To make the profit and loss account the tailpiece is to hold the reader in suspense, and in flicking back from that account to the balance sheet his attention is only distracted by such intimacies—felicitous though they might be if differently placed—as a picture of "Mr. R. C. N. Day. On the Maintenance Staff. One of 'Bob's' main interests is First Aid, where he has done excellent work."

The four summaries are interesting and enlightening. The first summary gives seven types of fixed assets, from freehold property to canteen plant and equipment, with the usual three columns of figures, and, what is not always presented by companies, three columns of comparative figures. The third summary tabulates the gilt-edged investment holdings, showing the cost and mean year-end market value, and it would

be as well if all company boards were as frank in detailing their security portfolios. The fourth summary sets out the record from 1929 to 1950 of net profits before providing for taxes and the profit-sharing fund, dividends paid, and the growth of general reserve and undistributed profits. These figures relate to the parent, whereas the latest accounts show that the subsidiaries contributed £29,642 of the group trading profit of £278,849. A record of consolidated profits would therefore have been more useful, and the chronology would not be vitiated by the additions to subsidiary interests over the period.

The Case of the Missing Footnote

In our note under this heading in the September issue of ACCOUNTANCY (page 334)

we said that the Eighth Schedule to the Companies Act lays down that there shall be stated by way of note: "the basis on which the charge for United Kingdom income tax is computed." We regret that some words were inadvertently omitted from this sentence. The Eighth Schedule requires the note to be made only if the basis on which income tax is computed is not otherwise shown in the accounts.

A careful reading of the accounts of *Lansil*, to which our note referred, shows that the tax liability of the company was computed on the profits of the year after making perfectly proper deductions for substantial initial allowances. However, we remain of the opinion—which our note was intended to express—that the company law should be clarified so as to ensure that the wording of all accounts should make the basis of com-

putation of income tax quite clear to shareholders, whether or not they are experienced in reading accounts.

The note in question, we are given to understand, could be construed as an attack upon *Lansil* and its auditors. Such an attack was certainly not intended. To repeat, our purpose was to draw attention to the fact that compliance with the terms of the law as it now stands may still leave published accounts somewhat mystifying to the many shareholders who are not experts in accountancy or income tax. We are sorry if the general terms of our note, and the omission to give the full wording of the provision of the Eighth Schedule upon which its logic depended, led any of our readers to infer that the directors of the company or its auditors had failed in their duties to the shareholders.

Publications

A HANDBOOK ON BANKRUPTCY LAW AND PRACTICE. By Ivan Cruchley, LL.B., Barrister-at-Law. (*Solicitors' Law Stationery Society, Ltd., London. Price 18s. net.*)

The author of this book is a barrister-at-law and, as indicated in the preface, the book is intended primarily for the legal practitioner. It does not include a statement of the rights and duties of a trustee in bankruptcy in connection with the realisation and distribution of the bankrupt's estate, nor does it extend to deal with deeds of arrangement. None the less it is a useful book on bankruptcy law for the practising accountant to have on his bookshelf. It brings case law on the subject so far up to date as to include three decisions in 1950. From almost the commencement of the war until about 1948 bankruptcy has in practice been eclipsed by the procedure laid down under the Liabilities Adjustment Acts. But that procedure is soon to come to an end so far as concerns any new cases, and recently the number of petitions and receiving orders has increased to pre-war proportions. An up-to-date review of the bankruptcy law is therefore most welcome.

This book is compressed in a novel manner. For instance, fraudulent preference is comprehensively dealt with under its heading as an act of bankruptcy. Fraudulent conveyance is treated in the same manner. The law relating to jurisdiction and appeals is given twenty-two pages. Despite this wholesale compression all the essential information appears to be set out in an easily readable form. No doubt in

involved problems the practitioner would have recourse to the larger works of reference, but for giving a bird's-eye view of essentials it is difficult to imagine a better work than Mr. Cruchley's.

It is unfortunate that the book should be marred by one important omission. It fails to list P.A.Y.E. tax as a preferential debt. P.A.Y.E. was made a preferential debt by Statutory Order (S.R. & O. 1944 No. 251, Regulation 31). The draftsmen of the Act which introduced P.A.Y.E. apparently overlooked mention of preferential rights and the Inland Revenue sought to put the matter in order by the means above-mentioned. (See ACCOUNTANCY, December, 1948, page 268, and January, 1949, page 9.) The fact that the author missed the point is not so much a reflection on him as it is on the method of legislation by which it was introduced. Although, as already said, this point is an important one, its omission is merely an isolated blemish on an excellent book.

D. M.

THE PRINCIPLES OF INCOME TAX AND PROFITS TAX. By E. Miles Taylor, F.C.A., F.S.A.A. Fourteenth edition. *Textbooks, Ltd., and British College of Accountancy, Ltd., London. Price 15s. net.*

Recent examination results and the acknowledged difficulty experienced by students in their taxation studies indicate a re-consideration of the adequacy of existing text-books. The latest edition of this well-known work is presumably intended primarily for Intermediate students, and within 269

pages it provides a concise account of the whole field of income tax and profits tax. Despite the title it is not different in kind from more advanced works—the difference is largely a matter of brevity in exposition and avoidance of the more difficult issues. This is no doubt inevitable, when students are required to cover virtually the same ground for Intermediate and Final examinations. But it raises the issue—not one, of course, that the authors can be expected to deal with, for in writing their book they have obviously to take the examination syllabuses as given—whether it is reasonable that Intermediate students should be required to cover such a wide field.

The increasing complexity of taxing Acts makes it very difficult for students, in the early years of their studies, to obtain a grasp of taxation unless the scope is severely limited. By the same token, it is impossible to give a clear overall picture of taxation within the compass of an elementary work, and Mr. Miles Taylor, like other authors in the field, is in this respect the undeserved victim of circumstances he does not control.

The same reasons do not explain, however, the diversion of aim which is apparent from frequent references to legislation no longer current and not of interest to examination students—for example, N.D.C., the Special Contribution, the discharge of Schedule E tax on commencement of P.A.Y.E., even though these are mainly relegated to appendices. There is a danger, too, which has not been entirely avoided, that a regular demand for an established work should give rise to the minimum of revision for changes in legislation, so that as new editions appear a detached view of the work as a whole may be lost. Liability to error, also, is more probable on revision

than in original composition, and this may account for a number of minor but unfortunate slips. For example, the interest on Tax Reserve Certificates has been 15s. per cent. for some time; many references to Schedule B have not been entirely brought up to date; the reference to maintenance claims in the early years is inaccurate; annual allowance for wear and tear is not bound up with what is "just and reasonable" and the basis for the computation is now fixed by reference to plant in use at the end of the basis period.

Figure illustrations are frequent and clear throughout, but the arrangement of the chapter on profits tax can hardly be helpful to the student. He is introduced at once to the treatment of distributions (involving abatement and franked investment income) before the latter are explained and before the background of the computation of adjusted profits is given.

But the main point must be reverted to: is it too much to hope that Intermediate accountancy examinations may be increasingly concentrated, at least so far as concerns taxation, on a narrower field of fundamental principles? Among other results of such a move, the revision of students' text-books would be facilitated.

J. S. H.

BOOKS RECEIVED

UNITED KINGDOM OVERSEAS INVESTMENTS 1938 TO 1948. Compiled and published by

the Bank of England. (*Bank of England. Price 2s. post free.*)

RATING VALUATION PRACTICE. By Philip R. Bean, F.R.I.C.S., F.A.I., F.R.V.A., and Arthur Lockwood, M.B.E., F.R.I.C.S., F.A.I., F.R.V.A. Foreword by Harold B. Williams, K.C., LL.D. Second edition. (*Stevens & Sons, Ltd. Price 30s. net.*)

STEVENS' ELEMENTS OF MERCANTILE LAW. By John Montgomerie, B.A., Barrister-at-Law. Eleventh edition (1950). (*Butterworth & Co. (Publishers), Ltd. Price 15s. net.*)

DUTIES OF A COMPANY SECRETARY. By T. Bolton, A.C.I.S., and Percy F. Hughes, F.C.I.S., A.S.A.A. (*Secretaries Journal Limited. Price 20s. net.*)

THE CHAIRMAN'S MANUAL. By Gurdon Palin and Ernest Martin. Third edition. (*Sir Isaac Pitman & Sons, Ltd. Price 7s. 6d. net.*)

THE DEATH DUTIES. By Robert Dymond. Assisted by R. K. Johns, LL.B. Third (Consolidated) Supplement to the tenth edition. (*The Solicitors' Law Stationery Society, Ltd. Price 10s. 6d. net. Book and Supplement 55s. net.*)

A HANDBOOK ON THE DEATH DUTIES. By H. Arnold Woolley, Solicitor. Supplement to the Sixth edition by J. H. Munkman, LL.B. (*The Solicitors' Law Stationery Society, Ltd., London. Price 2s. 6d. net.*)

THE PROFITS TAX SIMPLIFIED. By Arthur Retz, B.COM., F.R.ECON.S., F.A.C.C.A. Second edition. (*Barkeley Book Co., Ltd., Stanmore. 3s. net.*)

Microfilm Equipment

For the first time microfilm equipment is to be manufactured in Great Britain. It will be distributed to the British market and exported. This was announced last month by *British Optical and Precision Engineers and Burroughs Adding Machine.*

The manufacture will be undertaken by *British Acoustic Films*, a member company of the *British Optical and Precision Engineers* group, as licensee of the American company *Bell and Howell*. *Burroughs* has placed an initial order for equipment valued at £360,000, having acquired the exclusive rights to distribute and service the microfilm apparatus in this and other countries.

The new machine can photograph documents at the rate of more than 400 per minute. It consists of a camera recorder with an automatic feeder, a projection reader and an automatic processor. A roll of film 100 feet long, which it is expected will cost about 30s., would microfilm the equivalent of four drawers of files from an ordinary cabinet. Photographic facsimiles in the original size of the document can be made from the apparatus in a few minutes without the use of a dark room.

The advantages of microfilming such documents as plant and equipment records, manufacturing specifications, patent records, shareholders' lists, general ledgers and many others used in business can be easily seen, and there will undoubtedly be a ready market for the machines when they become available during the latter part of next year.

Letters to the Editor

Furnished Lettings

SIR,—We are now able to inform you that in a case similar to that about which Messrs. Morgan, Back & Co. wrote to you (September, 1950, page 332), we persisted on the lines suggested in your Editorial reply to them with the result that the Inspector of Taxes here has stated that:

Relief may be given in the furnished letting computation in respect of either the net annual value and the actual cost of repairs or the gross annual value and no allowance for repairs.

This was our contention all along and we think your readers will be interested to learn that by persistence reason has won the day, and the method of computation set out in your original Tax Note (August, page 284) has been upheld.

Yours faithfully,

BUCHANAN AND BARTER,
Incorporated Accountants.

Southsea.

October 11, 1950.

[We are authorised by Messrs. Morgan, Back & Co., Incorporated Accountants, to state that by arguing their case also on the lines suggested in our September issue, they obtained agreement before the Commissioners to the basis of computation set out in our Taxation Note.—Editor, ACCOUNTANCY.]

Distribution to Proprietors of Capital Profits

SIR,—The company of which I am secretary proposes in the near future to sell one of its assets and will make a considerable profit therefrom.

In view of the remarks on page 84 of your issue dated April, 1948, and bearing in mind Section 36 (1) of the Finance Act, 1947, will you please say whether there will be a distribution charge if the capital surplus is distributed to proprietors, even though the profits of the company to date have not been sufficiently large to bring them within the scope of profits tax, i.e., is it established that a distribution charge is limited to profits on

which non-distribution relief has previously been obtained?

In view of several apparently conflicting decisions in regard to the above, could you please let me know whether sur-tax will be payable by the recipients of the above-mentioned capital surplus, since no income tax will be paid thereon?

Yours faithfully,

E. A. WILSON, A.S.A.A.

London, S.W.6,

October 11, 1950.

[It is "established" that a distribution charge is limited to profits on which non-distribution relief has been obtained. Section 30 (3), proviso, Finance Act, 1947, says so most plainly.

A capital surplus may be a distribution, but it is still not necessarily a net relevant distribution chargeable to a distribution charge; there may have been no profits since January 1, 1947, or all profits may have been distributed and charged in full already.

Provided the distribution is done by proper resolution, under powers in the Articles, making it clear that it is a capital surplus and a distribution of a capital surplus remaining after review of the assets, etc., there can be no question of

surtax liability. Such distributions are very common and cannot be challenged. In a controlled company, however, any disposal of assets to members may need consideration from the viewpoint of the effect of Section 21, Finance Act, 1922.—EDITOR].

Profits Tax and Goodwill

SIR,—I was interested in the article with the above title appearing in ACCOUNTANCY for September, 1950 (page 311).

If the reasonings of the writer are accepted, then surely the argument must logically be taken a step further.

The amount of Profits Tax payable by a company depends firstly on the items which may be deducted in arriving at the assessable profits. It will be remembered that whereas rent payable is allowed as a deduction, the net annual value of premises owned by the company is not, and also that payments to directors in director-controlled companies are restricted.

Secondly the Profits Tax payable is influenced very largely by the proportion of profits which are distributed to members.

We can, then, imagine two companies earning exactly the same profits and having goodwill to all intents and purposes the

same in value, but with liabilities to Profits Tax that, owing to different internal financial policies, are entirely disparate. The position could be illustrated as in the table below.

It will thus be realised that if the goodwill of each of the two businesses were being valued and the Profits Tax paid by each company were deducted in arriving at the valuation, different results would be obtained—due entirely to the fact that the two companies are pursuing different financial policies, a fact which can have no direct effect on the value of goodwill.

Without entering into the arguments on the merits of the case, I would therefore suggest that if Profits Tax is deducted in valuing goodwill, tax computations should first be reviewed and if necessary adjusted for items such as those visualised in the above example. It would seem, too, that an allowance should be made for a reasonable distribution of profits to shareholders, providing the profits earned will allow it.

Yours faithfully,

K. J. MATTHEWS, A.S.A.A.

Purley, Surrey,
October 2, 1950.

INCORPORATED ACCOUNTANTS' COURSE BALLIOL COLLEGE, OXFORD

SEPTEMBER, 1950

Publication of Papers

The following papers were delivered:

Financial and Accounting Problems of Nationalised Industries, by J. Latham, C.B.E., A.C.A.

What the Business Man Expects from the Accountant, by John Ryan, C.B.E.

Taxation—On Giving Advice and Other Homely Problems, by H. A. R. J. Wilson, F.C.A., F.S.A.A.

Group Accounts, by D. J. Bogie, PH.D., C.A.

Methods of Financing Companies under Present-day Conditions, by John B. Braithwaite, chairman of the Stock Exchange.

The Structure of Industrial Accounts, by K. W. Bevan, A.C.A.

A Perspective of Taxation, by Frank Bower, C.B.E., M.A.

Machine Accounting Systems for the Small Concern, by J. D. Nightingirl, A.S.A.A., and N. Cassleton Elliott, M.A., A.C.A.

We have published in ACCOUNTANCY the papers by Mr. Latham (October, pp. 357-361, and this issue, pp. 384-390) and by Mr. Ryan (pp. 392-396 of this issue).

The paper on *Machine Accounting Systems* is now obtainable in booklet form from the Secretary, Society of Incorporated Accountants, Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2, price 2s., by post 2s. 3d. It is requested that orders be accompanied by remittance.

It is hoped to include the remaining five papers in forthcoming issues of ACCOUNTANCY.

A new factory for making business equipment has been opened at Strathleven, Scotland, by *Burroughs*. At present 500 workers are employed, but when full production is reached the number will be 1,000. The whole range of *Burroughs* equipment will be made at Strathleven, from the smallest hand-operated adding machine to mammoth accounting equipment for large businesses. The factory will serve the export trade as well as the British markets. It will have the benefit of research carried on by a large team of scientists in the company's organisation, mainly in the United States, for the improvement of the machines and the development of new apparatus.

COMPANY A (director controlled)

- (1) Owns the premises where the business is carried on.
- (2) Paying interest to its directors (other than wholetime service directors) on loans.
- (3) Paying its normal dividend each year (say) £1,250 (gross).
- (4) Director remuneration £3,000 (no wholetime service directors).

COMPANY B (not director controlled)

- (1) Paying rent for premises occupied.
- (2) Financed by a bank loan and thus paying bank interest.
- (3) Paying no dividend.
- (4) Directors' Remuneration, £3,000.

The Profits Tax payable by each company would be:

	Company A	Company B
Profits as adjusted for Income Tax	5,000	5,000
Add: N.A.V. of Premises	250	
Interest paid to Directors	250	
Directors' Remuneration not allowed	500	
	6,000	
ABATEMENT		
12,000 — 6,000	1,200	12,000 — 5,000
5		5
	<u>£4,800</u>	<u>£3,600</u>
GROSS RELEVANT DISTRIBUTION		
Loan Interest	250	
Dividend	1,250	Nil
Directors' Remuneration	500	
	<u>£2,000</u>	
NET RELEVANT DISTRIBUTION		
4,800 × 2,000	£1,600	
6,000		
PROFITS TAX PAYABLE		
£4,800 at 30 per cent.	1,440	£3,600 at 30 p.c.
Non-distribution relief, £3,200 at 20 per cent.	640	£3,600 at 20 p.c.
	<u>£800</u>	<u>£720</u>
		<u>£360</u>

THE SOCIETY OF Incorporated Accountants

MANCHESTER STUDENTS' COURSE

REPORT ON THE STUDENT MEMBERS' COURSE
THE STUDENT MEMBERS' WEEK-END RESIDENTIAL Course was again held at Hulme Hall, the University of Manchester, during September.

The lectures had been carefully selected for examination purposes. The subjects covered included company accounts, costing, economics, bankruptcy, Companies Act, 1948, executorialship, and statistics. A demonstration and film on punched-card accounting were provided by representatives of Powers-Samas Accounting Machines, Ltd.

The lectures, which were divided into those for Intermediate and Final candidates, were given by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A., Mr. P. Cardwell, F.S.A.A., Mr. D. A. Lewis, LL.B., B.A. (COM.), Fellow of the Institute of Bankers, Mr. K. W. Lomax, B.Sc., M.A. (ADMIN. M/C.), Mr. R. W. Moon, B.LITT., A.C.A., Mr. L. J. Northcott, F.C.A., Mr. S. C. Roberts, F.W.C.A., M.I.I.A., and Mr. F. Pilling.

The President (Mr. G. W. Street, F.S.A.A.), in welcoming students from North Lancashire, North Staffordshire, and Sheffield Districts in addition to the Society's own students, expressed his regret that some students did not take the opportunity of attending the courses, which were designed for educational and examination purposes. He expressed the hope that the students would enjoy the course and wished them every success in their forthcoming examinations.

Mr. Henry Smith, member of the Council of the Society of Incorporated Accountants, spoke on behalf of the President of the Society. He stressed the importance of these courses and expressed his concern for the well-being of the students.

Mr. Walter H. Marsden, also a member of the Society's Council, expressed deep concern at the low percentage of passes at the recent examination, giving the opinion that faith and confidence were great assets.

Mr. C. Yates Lloyd, the honorary secretary and immediate past-President of the Manchester Society, echoed the wish of other speakers that more students would attend. He stated that some students who had attended on previous occasions had again come to the course, and he wished them every success in their final examinations.

The Reverend Flitcroft, M.A., Warden of

Hulme Hall, welcomed the students and members to Hulme Hall and expressed the hope that they would all enjoy the course. The Warden conducted a short service on Sunday morning before commencement of the lectures.

The usual concert was held in the main common room on Saturday evening, and proved to be a great success. The artistes were Miss M. Dilworth, LL.C.M., and Messrs. R. Sutton, C. L. Wilson, B. Taylor and R. H. Lloyd.

A brains trust held on Sunday evening comprised lecturers and students, the hon. secretary (Mr. C. Yates Lloyd) acting as question master.

After an address by the secretary entitled "After the Examinations," the President in his closing speech thanked the lecturers and the secretary, Mr. C. Yates Lloyd, for the trouble and care taken in planning the course. The students made a request that the series should be continued.

COUNCIL MEETING

OCTOBER 5, 1950

Present: MR. C. PERCY BARROWCLIFF (Vice-President) in the chair, Mr. John Ainsworth, Sir Frederick Alban, Mr. Edward Baldry, Mr. R. M. Branson, Mr. Henry Brown, Mr. A. H. Edwards, Mr. E. Cassleton Elliott, Mr. M. J. Faulks, Mr. W. H. Fox, Mr. A. Hannah, Mr. Walter Holman, Mr. H. O. Johnson, Sir Thomas Keens, Mr. W. H. Marsden, Mr. A. E. Middleton, Mr. Bertram Nelson, Mr. T. H. Nicholson, Mr. F. A. Prior, Miss P. E. M. Ridgway, Mr. P. G. S. Ritchie, Mr. R. E. Starkie, Mr. Joseph Stephenson, Mr. Percy Toothill, Mr. Richard A. Witty and the Secretary and the Deputy Secretary.

MR. A. B. GRIFFITHS

The Council passed a resolution of congratulation to Mr. A. B. Griffiths, upon whom the honorary degree of Master of Arts of Sheffield University was recently conferred.

YORKSHIRE DISTRICT SOCIETY

It was reported that Mr. T. W. Dresser had resigned from the office of Honorary Secretary of the Yorkshire District Society, but would continue to act as Honorary Librarian. The Council recorded its warm appreciation of Mr. Dresser's valuable

services to the Yorkshire District Society during the past 34 years.

BYE-LAWS OF THE COUNCIL

The Council approved amendments in the Bye-laws to implement the revised examination regulations and syllabus, and the abolition of the Final Examination Certificate. The revised Bye-laws will be published in the 1951 List of Members.

SIR JAMES MARTIN MEMORIAL EXHIBITION

The Council resolved that the Sir James Martin Memorial Exhibition in respect of the May, 1950, Intermediate Examination be awarded to Kenneth Charles Reeve, Articled Clerk to Mr. Leslie Duck (Duck, Mansfield & Co., London).

JOINT STANDING COMMITTEE OF THE UNIVERSITIES AND THE ACCOUNTANCY PROFESSION

The Council resolved that the Society's representatives on the Joint Standing Committee should be the President, Sir Frederick Alban, Mr. Bertram Nelson and Mr. I. A. F. Craig, Secretary.

MEMBERSHIP

The Council approved a number of applications for advancement to Fellowship and for admission to membership of the Society, subject to payment of the appropriate entrance fees and subscriptions.

RESIGNATIONS

A report was received of the following resignations: Morton, Harry, D.S.O., M.C. (Associate), Derby; Valpy, James Wyatt (Associate), Somerset West, South Africa.

DEATHS

The Council received with regret a report of the death of each of the following members: Bardell, Arthur Percy (Fellow), Birmingham; Bass, Reginald Henry (Associate), London; Bates, William Ewart (Associate), Cromer; Foot, Alfred Newton (Fellow), Cape Town; Gilmore, Joseph Frederick (Associate), London; Glenn, Cecil Thomas (Associate), Newcastle upon Tyne; Gowen, Herbert Philip, O.B.E., J.P. (Fellow), Norwich; Gray, Arthur Lionel (Associate), Redruth; Green, Eric (Associate), London; Haigh, Maurice (Associate), Barnsley; Hopkins, John (Fellow), Liverpool; Hughes, Arthur Henry (Fellow), London; Jack, William Hill (Fellow), Ayr; Leach, Fred Priestley (Fellow), Bristol; Mason, Reginald Heber (Associate), Harrogate; Mills, Samuel, M.B.E. (Fellow), Radcliffe; Shankland, Frank Herbert (Fellow), Cardiff; Sherwood, Charles Alfred (Associate), Wolverhampton; Sinkinson, Benjamin Rigg (Fellow), Bradford; Slaymaker, Dorothy May (Associate), Leominster; Thayer, Charles Dudley (Fellow), Wallasey; Walkem, Stephen

Henry, B.COM. (Associate), Dudley; Wetherall, Robert Alexander, M.B.E. (Fellow), Barnet; White, Ernest George (Fellow), Carmarthen; Williams, Edgar William (Fellow), Newport, Mon.

The following resolution was adopted: "The Council of the Society of Incorporated Accountants and Auditors has learned with profound sorrow of the death of Mr. Arthur Henry Hughes, who was admitted a member of the Society in 1904 after gaining Honours at the Society's Final Examination. The Council records with pride and gratitude the many services rendered to the Society by Mr. Hughes, particularly as Auditor—an office which he had held since 1927. The Council tenders to Mrs. Hughes and her daughter its heartfelt sympathy in the great loss which they have sustained."

DISTRICT SOCIETIES

BIRMINGHAM

SYLLABUS OF LECTURES, 1950-51

BIRMINGHAM

Unless otherwise stated, lectures will be held at 6.15 p.m. at the Law Library, Temple Street.

1950
November 2: "The Presentation of Accounting Statements for Management," by Mr. W. W. Fea, B.A., A.C.A., Chief Accountant, Guest, Keen & Nettelfolds, Ltd. At the Imperial Hotel, Temple Street. Joint lecture arranged by the Institute of Cost & Works Accountants.

November 3: "General Knowledge," by Mr. R. D. Penfold, LL.B., F.C.I.S., Barrister-at-Law. Chairman: Mr. J. J. Potter, F.S.A.A.

November 10: "General Principles of Valuation, Rating Assessments and Collection," by Mr. F. A. Amies, B.A., U.B. Chairman: Mr. C. D. Bailey, A.S.A.A.

November 17: "The Problems of Death Duties," by Mr. Derek E. Wilde, LL.B., C.A.I.B. Chairman: Mr. S. H. Thurstans, A.S.A.A.

November 24: Discussion Group. Consolidated Accounts.

December 1: "Aspects of Branch Accounts," by Professor D. Cousins, B.COM., A.C.A. Chairman: Mr. V. W. Grosvenor, J.P., LL.B., F.S.A.A.

December 8: "The Auditor's Duties under the Companies Act, 1948," by Mr. G. G. Thomas, PH.D., A.C.A., A.S.A.A., F.A.C.G.A., A.C.I.S. Chairman: Mr. D. W. Stirling, A.C.A., A.S.A.A.

December 15: "Estate Duty—The Valuation of Assets," by Mr. Derek E. Wilde, LL.B., C.A.I.B. Chairman: Mr. H. G. Pearsall.

1951

January 5: "Foreign Banking in 1951," by

Mr. W. E. Dawson, CERT. A.I.B., A.M.I.E.X. Chairman: Mr. C. H. Hills, F.S.A.A.

January 12: Discussion Group. Taxation.

January 19: "Estate Duty—Property Liable for Duty," by Mr. Derek E. Wilde, LL.B., C.A.I.B. Chairman: Mr. E. H. Walker, A.S.A.A.

January 26: "Profits Tax," by Mr. L. A. Hall, A.C.A., A.S.A.A. Chairman: Mr. J. T. Paxton, F.S.A.A.

February 2: "Elements of English Law," by Mr. C. L. Lawton, M.Sc., Barrister-at-Law. Chairman: Mr. P. G. Stembridge, F.S.A.A.

February 9: Joint Meeting with Inspectors of Taxes—Mock Income Tax Appeal.

February 16: "Legal and Equitable Apportionments," by Mr. Derek E. Wilde, LL.B., C.A.I.B. Chairman: Mr. E. Mozley, A.S.A.A.

February 23: Details later.

March 2: "Current Trends in Practical Banking," by Mr. T. E. Hurst. Chairman: Mr. W. G. A. Russell, F.S.A.A.

March 9: Joint Lecture arranged by the Association of Certified and Incorporated Accountants, on "Examination Technique." Assembly Room, Birmingham Chamber of Commerce, New Street, at 6.30 p.m.

March 16: "Executorship Accounts," by Mr. Derek E. Wilde, LL.B., C.A.I.B. Chairman: Mr. J. T. Paxton, F.S.A.A.

March 23: Discussion Group.

March 30: "The Third Account," by Professor D. Cousins, B.COM., A.C.A. Chairman: Mr. J. J. Potter, F.S.A.A.

An invitation has been received from the Chartered Institute of Secretaries to attend lectures arranged by them.

SHREWSBURY

Lectures to be held at the Old Post Office Hotel, Milk Street, Shrewsbury, at 6.30 p.m.

1950

November 3: "Marginal Costing," by Mr. W. E. Harrison, F.C.W.A. Chairman: Mr. P. V. Wheeler, F.S.A.A.

December 8: "The Problems of Death Duties," by Mr. Derek E. Wilde, LL.B., C.A.I.B. Chairman: Mr. J. G. Carter, F.S.A.A.

1951

January 12: "Profits Tax," by Mr. Percy F. Hughes, F.C.I.S., A.S.A.A. Chairman: Mr. B. Ruscoe, F.S.A.A.

March 9: "The Society's Book-keeping and Accounting Papers," by Mr. R. Glynn Williams, F.C.A., F.T.I.I. Chairman: Mr. W. R. Yaxley, F.S.A.A.

WOLVERHAMPTON

Lectures to be held at the Molyneux Hotel, North Street, Wolverhampton, at 6.15 p.m.

1950

December 8: "Executorship Law and Accounts," by Mr. R. Glynn Williams, F.C.A., F.T.L.L.

1951

February 2: "Valuation of Goodwill," by

Mr. W. W. Bigg, F.S.A.A., F.C.A.

March 2: "Marginal Costing," by Mr. J. H. Whicheloe, A.C.W.A., A.L.A.A., A.C.I.S.

Discussion Groups for students will be arranged in Burton-on-Trent, Coventry, Dudley, Kidderminster, Shrewsbury, Walsall, Wolverhampton and Worcester.

BRADFORD

SYLLABUS OF LECTURES, 1950-51

Lectures will be held at the Liberal Club, Bank Street, Bradford, at 6.15 p.m.

1950

November 7: "Profits Tax," by Mr. J. S. Heaton, A.S.A.A. Chairman: Mr. H. M. Firth, F.S.A.A.

November 24: "Standard Costs," by Mr. J. W. Fewlass, A.C.W.A., A.C.I.S. Chairman: Mr. J. F. Carter, A.S.A.A.

December 8: "Surtax," by Mr. B. R. Pollock, M.A., A.S.A.A. Chairman: Mr. C. Simpson, A.S.A.A.

1951

January 19: "Back Duty," by Mr. P. F. Hughes, A.S.A.A., A.C.I.S. Chairman: Mr. C. E. Claridge, F.C.A., F.S.A.A.

February 1: "Valuation of Goodwill," by Mr. W. W. Bigg, F.C.A., F.S.A.A. Chairman: Mr. G. A. Wrigley, F.S.A.A.

February 15: "Executorship," by Mr. V. S. Hockley, B.COM., C.A. Chairman: Mr. L. Eteson, A.S.A.A.

February 22: "Consolidated Accounts," by Mr. R. Glynn Williams, F.C.A. Chairman: Mr. W. S. Wilson, A.S.A.A., F.C.I.S.

March 15: "Current Affairs," by Mr. D. Steele, F.C.A. Chairman: Mr. H. Chapman, A.S.A.A.

April 4: "Statistics," by Mr. B. B. Swann, B.Sc., B.COM. Chairman: Mr. D. L. Crowe, A.S.A.A.

Students are invited to attend lectures arranged by the Chartered Students' Society, and a copy of their syllabus can be obtained from the secretary's office.

* These two lectures are intended primarily for final students and senior members.

It is hoped to arrange a visit to inspect a works costing system during the winter session.

DEVON AND CORNWALL

SYLLABUS OF LECTURES, 1950-51

All lectures commence at 6 p.m. Except where indicated they will be held at the Plymouth Law Chambers, 5, Princess Square, Plymouth.

1950

October 20: "Company Accounts—Present day Practice in Review," by Mr. F. A. Roberts, A.S.A.A.

November 14: "Industrial Accounting," by Mr. J. A. Isaac, A.S.A.A.
 November 15: "Taxation," by Mr. J. S. Heaton, A.S.A.A. At Farmers' Union Offices, Osborne House, near Clock Tower, Exeter.

November 16: "Taxation," by Mr. J. S. Heaton, A.S.A.A. At Mansion House, Princes Street, Truro.

December 22: "The Municipal Machine," by Mr. P. D. Pascho, F.S.A.A.

1951
 January 11: "Industrial Accounting," by Mr. J. A. Isaac, A.S.A.A. At Mansion House, Princes Street, Truro.

January 19: "Executorships and Trusts," by Mr. J. Linahan, A.S.A.A.

February 16: "The Law of England," by Mr. R. D. Luscombe, LL.B. (Solicitor).

February 21: "Company Formation," by Mr. A. W. C. Lyddon, F.S.A.A. At Farmers' Union Offices, Osborne House, near Clock Tower, Exeter.

March 30: "Machine Accounting." At the City Treasury, The Guildhall, Plymouth.

MANCHESTER

A JOINT MEETING WITH THE MANCHESTER Society of Chartered Accountants will be held on November 24 at 6 p.m. at the Chartered Accountants' Hall, Spring Gardens, Manchester. Mr. H. C. Cox, F.C.A., will give a paper on "Consolidated Accounts in Practice."

Lectures for Intermediate and Final candidates are held every Friday at 6.30 p.m.

NEWCASTLE-UPON-TYNE

SYLLABUS OF LECTURES, 1950-51

NEWCASTLE LECTURES

Lectures will be held at the Library, 52, Grainger Street, Newcastle-upon-Tyne.

1950

November 9: "Estate Duty Aggregation," by Mr. C. L. Lawton, M.Sc. (ECON.), Barrister-at-Law.

November 17: "The Construction of a Balance Sheet," by Mr. R. Glynne Williams, F.C.A., F.T.I.L.

December 7: "Valuation of Shares for Estate Duty," by Mr. J. A. Jackson, F.S.A.A.

Date to be fixed: "Devaluation," by Mr. E. E. Watkins, M.A.

1951

January 24: "Double Taxation," by Mr. W. H. Millar, H.M. Inspector of Taxes.

February 6: "Group Accounts," by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A.

February 23: "Profits Tax," by Mr. Percy F. Hughes, A.S.A.A., A.C.I.S.

March 8: "Standard Costing," by Mr. J. W. Fewlass, A.C.W.A.

March 20: "Some Practical Aspects of Liquidation Procedure," by Mr. W. Matthewson, F.C.A.

April 11: "Case I, Schedule D," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A.

TEES-SIDE LECTURES

Lectures will be held at Café Royal, Linthorpe Road, Middlesbrough, at 6.30 p.m., except where otherwise stated.

1950

November 8: "Executorship Law," by Mr. C. L. Lawton, M.Sc. (ECON.), Barrister-at-Law.

November 16: "Companies Act, 1948," by Mr. R. Glynne Williams, F.C.A., F.T.I.L. (at Spark's Café, Stockton).

December 6: "Valuation of Shares for Estate Duty," by Mr. J. A. Jackson, F.S.A.A.

1951

January 26: "Profits Tax," by Mr. R. A. Fricker, A.S.A.A. (at Grand Hotel, West Hartlepool).

February 5: "Group Accounts," by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A.

February 22: "Income Tax Schedule D," by Mr. Percy F. Hughes, A.S.A.A., A.C.I.S. (at Spark's Café, Stockton).

March 9: "Principles of Costing," by Mr. J. W. Fewlass, A.C.W.A.

April 10: "Schedule A, including Maintenance Claims," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A.

NORTH STAFFORDSHIRE

SYLLABUS OF LECTURES, 1950-51

Except where otherwise stated all lectures will be at Hanley Town Hall, at 6.30 p.m.

1950

October 13: "History of Lloyds," by Mr. A. C. Dabbs (illustrated by lantern slides). Chairman: Mr. W. C. Coxon, F.S.A.A.

November 17: "Costing," by Mr. F. A. Simpson, F.C.W.A. Chairman: Mr. L. Goodwin, F.S.A.A.

December 15: "Insolvency," by Mr. A. V. Hussey, F.S.A.A. Chairman: Mr. E. Downward, F.S.A.A.

1951

January 11: "Taxation," by Mr. A. O. Langton, F.C.A., F.S.A.A. Chairman: Mr. A. Brodie, F.S.A.A.

February 16: Joint Lecture with Institute of Cost and Works Accountants. "Legal Liabilities for Industrial Injuries," by Mr. V. McKnight. At 7.15 p.m., Stoke Town Hall.

February 23: "Economics," by Professor A. M. Shimmis (Leeds University). Chairman: Mr. A. Dickson, A.S.A.A.

March 9: "Consolidated Accounts," by Mr. F. A. Roberts, A.S.A.A. Chairman: Mr. T. W. Porter, A.S.A.A.

NOTTINGHAM, DERBY AND LINCOLN

SYLLABUS OF LECTURES, 1950-51

Lectures will be held at the Reform Club, Victoria Street, Nottingham, at 6.30 p.m.

1950

November 30: "Cases I and II of Schedule D (including the commencing and cessation provisions)," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A.

December 14: "Insolvency," by Mr. A. V. Hussey, F.S.A.A.

1951

January 10: "Partnership Law," by Mr. T. W. South, B.A.

February 8: "Holding companies and consolidated accounts," by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A.

March 15: "Rating Provisions introduced by the Local Government Act, 1948," by Mr. W. R. Brackett, O.B.E., B.Sc., F.R.I.C.S.

An additional lecture will be given at the Lincoln Technical College on November 23, 1950, on "Recent developments in Taxation," by Mr. James S. Heaton, A.S.A.A.

SHEFFIELD

THE ANNUAL MEETING WAS HELD ON SEPTEMBER 20. The President, Mr. J. W. Richardson, F.S.A.A., was in the chair.

The report and accounts were approved. Special reference was made to the success of the dinner-dance—the first to be held by the District Society—and of the Saturday morning classes, attendance at which was restricted by the accommodation available.

The following officers and committee were elected: President, Mr. J. W. Richardson, F.S.A.A.; Vice-President, Mr. W. H. Higginbotham, F.S.A.A.; Committee, Mr. C. S. Garraway, F.S.A.A., Mr. A. F. J. Girling, F.S.A.A., Mr. J. J. Farmer, F.S.A.A., Mr. C. E. Gray, A.S.A.A., Mr. J. M. Drummond, A.S.A.A., Mr. E. R. Harrison, F.S.A.A., Mr. W. Kirkham, F.S.A.A., Mr. L. Lewis, F.S.A.A., Mr. W. E. Moore, F.S.A.A., Mr. P. Toothill, F.S.A.A., Mr. H. G. Lawson, A.S.A.A., Mr. L. G. Winfield, A.S.A.A.; Secretary and Hon. Treasurer, Mr. C. H. Kershaw, F.S.A.A.; Honorary Auditor, Mr. Arnold Graves, F.S.A.A.

ANNUAL REPORT

SEVEN LECTURE MEETINGS WERE HELD. The students visited Bradford in November, and the Committee thank the Bradford Committee and their secretary, Mr. Dean, for the arrangements made.

A very successful dinner-dance was attended by the Presidents of local centres of other professional bodies.

Thirteen students passed the Final Examination and eight the Intermediate.

The library facilities afforded by the amalgamation of the Chartered Accountants' library with that of this District Society, and the availability of books in the

library of the Law Society, are much appreciated. The Committee thank Mr. B. K. Beaumont for his gift of books.

Saturday morning classes, held jointly with students of the Institute, are well attended. Mr. Arnold Graves, F.S.A.A., has rendered excellent service as lecturer in accountancy.

Appreciation is expressed of hospitality extended to the President and Honorary Secretary by the Lord Mayor and Lady Mayoress of Sheffield and by other professional bodies.

SOUTH WALES & MONMOUTHSHIRE INCORPORATED ACCOUNTANTS' GOLFING SOCIETY

THE AUTUMN MEETING OF THE GOLFING Society was held at the Radyr Golf Club on October 5. The result was as follows: *Morning Medal Round*: 1, Mr. E. L. Molyneux; 2, Mr. H. Morgan; 3, Mr. W. J. Fooks. *Afternoon Stableford Foursome*: 1, Mr. N. H. Chipperfield and Mr. H. Phillips; 2, Mr. E. Griffiths and Mr. A. J. Dunkley.

PERSONAL NOTES

Mr. Horace Loker, F.S.A.A., has been appointed a Justice of the Peace for Middlesex.

Mr. Alfred S. John, F.S.A.A., has been appointed a Justice of the Peace for the county of Glamorgan.

Mr. Lewis Harrison, F.S.A.A., C.A.(S.A.), is President of the Society of Accountants and Auditors in the Orange Free State.

Mr. W. R. Douglas, A.S.A.A., has been appointed Borough Treasurer to the county borough of Tynemouth.

Messrs. Cassleton Elliott & Co. have taken into partnership in their Freetown, Sierra Leone, practice, Mr. H. C. Carter, A.S.A.A., who has been for many years in their employ in West Africa and London. The practice in Sierra Leone will be continued under the present name.

Messrs. Hollings, Crowe, Storr and Co., Incorporated Accountants, Otley and Leeds, announce that Mr. Peter E. Crowe, A.S.A.A., and Mr. Geoffrey W. Storr, A.S.A.A., sons of the present partners, are joining them in the partnership. There is no change in the firm's name and addresses.

Messrs. Cash, Stone & Co., Chartered Accountants, of London, Southampton and Portsmouth, have admitted into partnership Mr. C. B. G. Turner, A.C.A., A.S.A.A., who served his articles with the firm and has been for some years a senior member of the staff. The style of the firm will remain unchanged.

Mr. J. Leigh Worthington, A.S.A.A., managing director of James Duckworth,

Ltd., of Rochdale, recently completed fifty years of service with the company. On the occasion of the jubilee, he was the recipient of a presentation from his co-directors. He has been a director of the company since 1912 and hopes to retain his association with it for many years more.

Mr. J. Reddaway, Incorporated Accountant, has commenced practice at 25, Sidwell Street, Exeter.

Messrs. Jones, Avens, Worley & Piper, of Chichester and Portsmouth, announce that they have opened a branch office at 1, Lennox Street, Bognor Regis.

Messrs. Tansley Witt & Co., Chartered Accountants, London, announce that following the regretted death of Mr. Raymund Aston the practice is being continued by the surviving partners at the same address.

Mr. H. O. Fowler, A.S.A.A., sailed from England on October 6 to take up permanent residence in Australia. His address is c/o English, Scottish and Australian Bank, 7, Collins Street, Melbourne.

REMOVALS

Messrs. C. W. George & Co., Incorporated Accountants, have removed their offices to Tixall House, St. James's Road, Dudley.

Messrs. W. G. and D. G. Evans, Incorporated Accountants, have removed their offices to 40, Newport Road, Cardiff.

Messrs. H. Graham King & Co., Chartered Accountants, announce that their address is now 16, Mumford Court, Lawrence Lane, London, E.C.2.

Mr. H. F. White, Incorporated Accountant, practising under the style of H. F. White & Co., advises us that the address is now Kenilworth House, Hartley Hill, Leeds, 2.

Messrs. Hartley Turner & Son, Chartered Accountants, are now at Lloyds House, Albert Square, Manchester, 2.

OBITUARY

RAYMUND ASTON

We learn with regret that Mr. Raymund Aston, F.C.A., died on September 27. He became a member of the Institute of Chartered Accountants in 1921, and for over twenty years had been a partner in Messrs. Tansley Witt & Co., London.

WILLIAM HILL JACK

The Scottish Institute of Accountants, the Scottish Branch of the Society, has lost one of its oldest members by the recent death of Mr. William Hill Jack, F.S.A.A., Glasgow. Mr. Hill Jack had been a member of the

Society for 51 years and a member of the Council of the Scottish Institute for 15 years.

For many years partner with his late father, Mr. David Hill Jack, in the firm of D. Hill Jack & Son, Incorporated Accountants, in recent years Mr. Jack was more active in business, in which he had large interests, but he retained to the last a keen interest in the Scottish Branch. His only son was killed in a motor accident while in the Army during the war. He is survived by a daughter who is a director of several companies. Mr. Hill Jack was 76.

FRANK HERBERT SHANKLAND

The death on September 17 of Mr. F. H. Shankland, F.S.A.A., at the early age of 39 has been a severe blow to his firm and to his large circle of business associates in South Wales. Mr. Shankland was a partner in Messrs. Alfred Shankland & Sons, Incorporated Accountants, of Cardiff and Barry. The firm was founded by his father, the late Mr. Alfred Shankland. He was also a director of the Ampleforth Steamship Company, and was fast becoming an expert on shipping accounts. He qualified in 1908 and became a partner in the firm in the following year.

Mr. Shankland had played for many of the South Wales Rugby clubs, including the Glamorgan Wanderers and Cardiff. He was a fine swimmer and boxer.

The funeral at Llanishen Parish Church on September 20 was attended by a large number of his friends in the profession and in commerce.

APPOINTMENTS VACANT

(Continued from page xvi)

CENTRAL WIRRAL HOSPITAL MANAGEMENT COMMITTEE

APPLICATIONS are invited for the post of Finance Officer. Salary scale £740 x £30—£980 per annum. Modern centralised and mechanised department.

Applicants should be competent to manage the day-to-day finances of a large key hospital and six other group establishments. A professional qualification and/or considerable practical experience of hospital accounting is essential. The post is superannuable.

Forms of application and further details may be obtained from the undersigned. Completed applications should be returned before November 17, 1950.—W. J. B. Groves, Secretary, Group Headquarters, Clatterbridge General Hospital, Bebington, Cheshire.

NATIONAL COAL BOARD

APPLICATIONS are invited from qualified accountants for the post of principal assistant to the Board's Chief Financial Accountant at London Headquarters. The post offers considerable scope and the person appointed will be required to assist in the preparation of accounting instructions and the Board's annual accounts and other financial statements and in periodic reviews of the Board's accounting arrangements. Good professional experience is essential and experience in large-scale industrial accounting would be an advantage.

Salary, according to qualifications and experience, in the scale £1,200 to £1,450 per annum, plus London Location Allowance of £86 at the minimum and £100 at the maximum of the scale. The post is superannuable. Prospects of promotion within the Board's financial organisation are good.

Apply in writing, giving full particulars (in chronological order) of age, education, qualifications and experience (with dates) to NATIONAL COAL BOARD, Establishments (Personnel), Hobart House, Grosvenor Place, London, S.W.1, marking envelope TT/264. Original testimonials should not be forwarded. Closing date, November 15, 1950.

SEE ALSO PAGES XVI AND XVII

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